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WIC PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON NUTRITION AND INVESTIGATIONS

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

ISSUES AFFECTING THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN, GENERALLY KNOWN AS WIC

JUNE 11, 1987

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WIC PROGRAM

THURSDAY, JUNE 11, 1987

U.S. SENATE,
SUBCOMMITTEE ON NUTRITION AND INVESTIGATIONS OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SR-332, Russell Senate Office Building, Hon. Tom Harkin (chairman of the subcommittee) presiding.

Present or presenting a statement: Senators Harkin, Dole, and Boschwitz.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. The Subcommittee on Nutrition and Investigations of the Senate Agriculture Committee will come to order.

Today's hearing deals with issues affecting the Special Supplemental Food Program for Women, Infants and Children known as the WIC Program. The purpose of this hearing is to investigate the need for additional WIC funding and to address certain technical considerations in the operation of the WIC Program.

In fiscal year 1987, WIC is expected to provide support for over 3.3 million women, infants and children whose income and nutritional needs require supplemental assistance. The average cost per person in the WIC Program is only about $40 per month, of which $8 is used for health assessment including doctor's examinations, lab fees, and nutritional counseling where necessary, voucher issuance and recordkeeping, vendor monitoring, et cetera. This is a remarkably low cost for the tremendous benefit it is and the service it renders. Notwithstanding its efficiency, WIC benefits are available to no more than half of those who are eligible to receive its benefits. In fact, it reached only 25 percent of the income eligible children in fiscal year 1986. The reason it does not reach more eligible recipients is due to budget restrictions.

Today we will hear testimony from people who are intimately familiar with this program and the needs it seeks to address. The witnesses will tell us, among other things, that the WIC expenditures for prenatal mothers, based on a study of hospital records in Missouri, may save the Federal Government 83 cents in Medicaid costs for every dollar expended on WIC. The witnesses will also tell us about the States' efforts to reduce WIC food costs to the Federal Government and their proposals for making these efficiencies possible. The people testifying will also explain how current funding formulas are forcing States to curtail needed health services, and, consequently, food benefits to otherwise eligible participants—despite the fact that money exists to serve these people. Indeed, this is an important hearing and one that is deserving of our most thoughtful consideration at this time.

Our first witness today will be Mr. John Bode, Assistant Secretary for Food and Consumer Services, the U.S. Department of Agriculture. Mr. Bode, we have your prepared statement. Without objection it will be made a part of the record in its entirety. Welcome again to the subcommittee and please proceed as you so desire.

STATEMENT OF HON. JOHN W. BODE, ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GEORGE A. BRALEY, DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICE; AND PATRICK J. CLERKIN, DIRECTOR, SUPPLEMENTAL FOOD PROGRAMS DIVISION, FOOD AND NUTRITION SERVICE

Mr. Bode. Thank you, Senator. I will summarize my prepared statement. We appreciate the opportunity to be here today, and I am also pleased to be accompanied by Mr. George Braley, the Deputy Administrator in the Food and Nutrition Service for Special Nutrition Programs.

Of course, we are pleased to discuss with the subcommittee the certain administrative and funding issues pertaining to the WIC Program, particularly a series of recommendations made by the National Association of WIC Directors, all of which, all four program issues, in one way or another concern increases in funding, particularly administrative funding. We feel very strongly that it is important to maintain the limitation on administrative funding present in our current law at 20 percent. This is addressed under several headings. One is the issue of competitive bidding.

Of course, we have been working with the States and are pleased to have had some progress in the issue of competitive bidding as one of the efforts, though it is just one of the efforts, to control WIC food package costs. Under existing law, we do not have the authority to permit a recharacterization of food and administrative moneys that are recaptured, if you will, through competitive bidding.

Furthermore, even if we did, we would not be disposed to do so. We think it is important to keep in mind that there is a wide variation between States in WIC food and administrative costs per participant, as indicated by the State-by-State listing attached to my prepared statement.

It is apparent that many States have made decisions concerning which alternatives to include in the food package, which retail outlets may participate, and what type of delivery system to use. Those States which have made these decisions responsibly have succeeded in stretching their WIC grants to serve more eligible participants.

We want to reward these initiatives and are working to modify the administrative funding formula to accomplish this, primarily through participation based funding. However, we believe that neither current law nor prudent policy supports the diversion of funds intended to buy food for needy women, infants and children into administrative coffers of State and local health departments.

In discussing indexing the administrative and food grants, we think it is important to keep in mind that the amount of money available for WIC administration has increased from $153 million in 1980 to $323 million in 1986. That is a $186 million or an 111 percent increase.

The association argues that, since food price inflation is lower than inflation for providing services, the administrative funds portion is being eroded. We think this argument disregards three factors that are important.

First, as WIC has expanded, economies of scale have arisen to help control administrative costs.

Second, over time States achieve operational efficiencies as new systems evolve and become routine.

Third, most WIC State agencies have significant potential to improve their efficiency. For example, in fiscal 1986, the average administrative cost per person for the Iowa WIC Program was about three-fifths of that in Arkansas and about four-fifths the national average. Many States could learn from States such as Iowa. The administrative funding formula modification which we intend to propose would make State administrative funding per person more equal.

The major argument advanced in support of this increased administrative funding is the point that 260 to 1 is the participant-to-staff ratio. That is not a disturbing number to us because it works out to be about 12 people per workday, and my prepared statement includes a breakdown of how that typically would be dedicated.

To enable States to improve their management and further contain administrative costs, of course, the Department has been working cooperatively with the National Association of WIC Directors in our Focus on Management, a joint effort to improve management, and establish performance standards in four areas: caseload management, administrative funds management, vendor management, and nutritional services.

And finally, of course, the States may supplement the Federal administrative funding, and that is the point that we feel should be kept in mind.

With respect to the level of program funding, of course, that is a point on which reasonable people may and, I think, have differed. We think it is important to keep in mind that we have had a 73 percent increase in participation in WIC programs since 1980. It is hard to find a Federal program that has grown as rapidly since 1980 as the WIC Program.

WIC serves two-thirds of the eligible pregnant women below poverty level and nearly 9 out of 10 eligible infants below poverty. Today, approximately one in every four American infants under 1 year old participate in WIC, and that is one in four American infants at all income levels.

We offer assurances to reevaluate changes we are now making in the formulas used to fund States. This is the final subject addressed by the National Association of WIC Directors. We feel it is appropriate to be constantly reevaluating and examining our policies so that they are current with the circumstances at hand. I would want to point out one other thing that I am proud of, and that is we have, I think, been working pretty well with the National Association of WIC Directors and others in an effort to cooperate and to recognize this is an overall teamwork approach.

There are points on which we differ, of course, but it has been our effort to address the formulas for allocating funds, both administrative and food moneys, through rulemaking. So, there is an increased opportunity for not only the WIC State directors, but for the general public as well to participate in that important decisionmaking process, and the Department can have the benefit of their thoughts.

That concludes my summary of my prepared statement. I would be delighted, of course, to answer any questions that you have.

Senator HARKIN. Thank you very much, Mr. Bode. First of all, let me ask if my distinguished colleague, Senator Boschwitz, would have any opening statement to make?

Senator BOSCHWITZ. No, no thank you, Mr. Chairman.

Senator HARKIN. Thank you.

Senator BOSCHWITZ. But I would like to put a statement from Senator Dole in the record, if I may, and my prepared statement.

Senator HARKIN. Without objection, the statements will be admitted.

[The prepared statements of Senator Dole, and Senator Boschwitz follow:]

[The prepared statement, with attachments, of Mr. Bode follows:]

STATEMENT OF SENATOR BOB DOLE

NUTRITION SUBCOMMITTEE HEARING ON WIC PROGRAM

JUNE 10, 1987

MR. DOLE. MR. CHAIRMAN AND MEMBERS OF THE NUTRITION SUBCOMMITTEE, ALTHOUGH I WAS NOT ABLE TO BE HERE TODAY, I WOULD LIKE TO SUBMIT THIS STATEMENT FOR THE RECORD.

AS THE FORMER CHAIRMAN OF THE NUTRITION SUBCOMMITTEE, MY STRONG SUPPORT FOR THIS PROGRAM IS WELL KNOWN. IN FACT, THE PROGRAM HAS EXPANDED SIGNIFICANTLY DURING THE PERIOD 1981-1986. THE WIC PROGRAM MAY BE THE MOST POLITICALLY POPULAR PROGRAM IN THE CONGRESS. AND THIS REPUTATION IS WELL DESERVED. AS THE MOST EFFECTIVE FEDERAL NUTRITION PROGRAM, WIC HAS THE STRONG BIPARTISAN SUPPORT OF THE CONGRESS. IN AN ERA OF BUDGET CUTS AND FISCAL AUSTERITY, THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN INFANTS AND CHILDREN HAS BECOME LEGENDARY IN ITS ABILITY TO ESCAPE THE BUDGET AX.

AT A TIME WHEN OTHER PROGRAMS WERE BEING CUT BACK SUBSTANTIALLY, IT HAS INCREASED STEADILY BOTH IN FUNDING LEVELS AND PARTICIPATION RATES. BACK IN 1980, WIC RECEIVED $736 MILLION IN FUNDING, AND SERVED ABOUT 1.9 MILLION WOMEN, INFANTS, AND CHILDREN. THIS YEAR, WIC WILL BE FUNDED AT $1.7 BILLION, AND HAS GROWN TO A CASELOAD OF 3.4 MILLION. THIS KIND OF FUNDING HISTORY SPEAKS FOR ITSELF AT A TIME OF HIGH BUDGET DEFICITS AND SUBSTANTIAL REDUCTIONS IN OTHER PROGRAMS. IT SHOWS THAT DESPITE FISCAL RESTRAINT, CONGRESS STILL KNOWS HOW TO SET ITS PRIORITIES IN THE RIGHT DIRECTION IN SOME AREAS. AS YOU CAN SEE, THIS PROGRAM HAS MORE THAN DOUBLED DURING THE LAST SIX YEARS.

LAST YEAR, AFTER THREE LONG YEARS OF ATTEMPTING TO REAUTHORIZE THE CHILD NUTRITION PROGRAMS, WE SUCCEEDED ON TWO DIFFERENT VEHICLES, LARGELY THANKS TO THE EFFORTS OF SENATOR PAULA HAWKINS OF FLORIDA. SHE INTRODUCED AN AMENDMENT TO BOTH THE DEPARTMENT OF DEFENSE REAUTHORIZATION AND THE CONTINUING RESOLUTION. THIS AMENDMENT REFLECTED THE CONFERENCE REPORT AGREEMENT THAT WAS BEING HELD UP ON THE SENATE SIDE. BOTH BILLS WERE SIGNED BY THE PRESIDENT, SO TECHNICALLY, WIC WAS REAUTHORIZED TWICE, AND THE PROGRAM IS SAFE FOR ANOTHER FIVE YEARS.

ACTUALLY, DESPITE THE FACT THAT IT IS NOT AN ENTITLEMENT, WIC IS IN VERY LITTLE DANGER OF NOT RECEIVING ENOUGH FUNDING TO SERVE ITS CURRENT CASELOAD IN ANY GIVEN YEAR. CONGRESS ALWAYS CLOSELY MONITORS APPROPRIATIONS, AND HAS BEEN KNOWN TO PROVIDE FULL

FUNDING WHEN A PARTIAL REQUEST HAS COME FROM THE ADMINISTRATION. AS THE FORMER CHAIRMAN OF THE SENATE COMMITTEE ON AGRICULTURE APPROPRIATIONS, SENATOR COCHRAN ALWAYS MAKES SURE THAT WIC IS FAIRLY TREATED, AND WILL ADD LANGUAGE TO PREEMPT THE ADMINISTRATION FROM DOING THINGS LIKE REARRANGING FUNDING FORMULAS IN MID-YEAR. AS YOU MAY RECALL, THERE WAS SUCH AN ATTEMPT MADE LAST YEAR, AND CONGRESS INTERVENED.

THANKS TO THE LEGISLATION PASSED LAST YEAR, SOME CHANGES WERE MADE IN THE PROGRAM WHICH SHOULD BE HELPFUL IN ALLEVIATING THE DISRUPTIVE END OF THE YEAR FUNDING AND CASELOAD PROBLEMS WHICH HAVE RECURRED. BEGINNING AT THE END OF THIS FISCAL YEAR, STATES WILL BE ALLOWED TO CARRYOVER UP TO ONE PERCENT OF THEIR FUNDS FOR ANY FISCAL YEAR, IF THESE FUNDS REMAIN UNSPENT. FURTHER, THEY MAY OVERSPEND BY ONE PERCENT, WHICH WILL SIMPLY BE DEDUCTED FROM THEIR NEXT FISCAL YEAR'S ALLOCATION. HOPEFULLY, THIS WILL PROVIDE SOMEWHAT OF A MORE BALANCED APPROACH OVERALL. THE ORIGINAL DOLE-BOSCHWITZ CHILD NUTRITION REAUTHORIZATION BILL WOULD HAVE PROVIDED TWO-PERCENT OVERSPEND/ UNDERSPEND FLEXIBILITY, BUT THIS POLICY WAS NOT ADOPTED IN THE FINAL BILL THAT PASSED THE CONGRESS. THIS MAY BE AN ISSUE THAT WE NEED TO REVIEW AGAIN.

WIC'S GREAT TRACK RECORD

PERHAPS MORE THAN ANY OTHER FEDERAL NUTRITION PROGRAM, WIC HAS ENJOYED A STRONG PERFORMANCE RECORD, AS WELL AS STRONG BIPARTISAN SUPPORT IN BOTH HOUSES OF CONGRESS. WIC HAS EARNED THIS HIGH REGARD, BECAUSE IT IS FREE FROM THE FRAUD, WASTE AND ABUSE THAT CONTINUES TO MAR THE IMAGE OF THE FOOD STAMP PROGRAM, FOR EXAMPLE.

PART OF THE REASON FOR WIC'S POPULARITY IS THE FACT THAT ITS BENEFITS ARE TIED TO STRICT NUTRITIONAL STANDARDS -- IT IS A REAL NUTRITION PROGRAM, AS OPPOSED TO A FOOD ASSISTANCE PROGRAM, LIKE FOOD STAMPS. WIC VOUCHERS CAN ONLY BE CASHED IN FOR VERY SPECIFIC TYPES OF FOOD, DESIGNED TO MEET THE SPECIAL HEALTH AND NUTRITION NEEDS OF A PREGNANT OR NURSING WOMAN, AN INFANT OR CHILD. THE VULNERABLE NATURE OF THE POPULATION SERVED BY THE PROGRAM ALSO CONTRIBUTES TO ITS POPULARITY.

WIC IS A TRUE NUTRITION PROGRAM, WHOSE BENEFITS ARE SPECIFICALLY TAILORED TO MEET THE SPECIAL NUTRITION NEEDS OF THE RECIPIENTS IT SERVES. THE NOW-FAMILIAR STATISTIC CITED -- THAT EVERY DOLLAR SPENT ON WIC PROGRAM BENEFITS SAVES THREE DOLLARS IN POTENTIAL MEDICAL COSTS -- IS BECOMING A FAMILIAR STATEMENT AT EVERY CONGRESSIONAL HEARING. EVALUATION STUDIES INDICATE THE WIC PROGRAM HAS BEEN COST EFFECTIVE IN BOTH HEALTH AND DOLLAR TERMS. A MAJOR STUDY AT THE HARVARD SCHOOL OF PUBLIC HEALTH FOUND THAT EACH $1 SPENT IN THE PRENATAL COMPONENT OF WIC SAVES $3 IN

HOSPITALIZATION COSTS DUE TO THE REDUCED NUMBER OF LOW BIRTHWEIGHT INFANTS REQUIRING EXPENSIVE NEONATAL CARE. THE POSITIVE REPUTATION OF THE PROGRAM IS WELL-DESERVED, AND IT ENJOYS THIS POPULARITY, LARGELY BECAUSE OF THE DEDICATED WORK OF PEOPLE LIKE YOURSELVES.

FUNDING ISSUES IN THE 100TH CONGRESS

THIS YEAR, SENATOR DECONCINI AND OTHER COLLEAGUES, INCLUDING THREE REPUBLICANS, HAVE INTRODUCED S. J. RES. 99, WHICH IS A RESOLUTION, NOT AN ACTUAL BILL, EXPRESSING THE SENSE OF THE CONGRESS THAT FUNDING FOR THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN SHOULD BE INCREASED. SOME WOULD CLAIM THAT WIC IS CURRENTLY ABLE TO SERVE FEWER THAN HALF OF THE ELIGIBLE POPULATION IN NEED OF PROGRAM BENEFITS. ALTHOUGH STATISTICS MAY BE DETERMINED BASED ON INCOME CRITERIA, WIC ELIGIBILITY ALSO INCLUDES A NUTRITIONAL RISK ASSESSMENT, AND THIS IS A LITTLE MORE DIFFICULT TO DETERMINE STATISTICALLY.

THIS SENATE RESOLUTION CALLS FOR AN INCREASE IN PARTICIPATION OF APPROXIMATELY 5 PERCENT MORE WOMEN, INFANTS, AND CHILDREN EACH YEAR, OR ABOUT 300,000 THE FIRST YEAR. OVER THE NEXT FOUR YEARS, THE NUMBER OF PARTICIPANTS SERVED WOULD INCREASED FROM LESS THAN 50 PERCENT TO 65 PERCENT. I'M NOT CERTAIN WHAT THE FATE OF THIS LEGISLATION WILL BE. UNTIL NOW, IT HAS LARGELY BEEN A PARTISAN INITIATIVE, BECAUSE THE RESOLUTION HAS OVERWHELMINGLY DEMOCRAT COSPONSORS. BOTH REPUBLICANS AND DEMOCRATS ALIKE WOULD GIVE THE

WIC PROGRAM HIGH PRIORITY IN THE DIRECTION OF EXPANSION IF OUR FEDERAL BUDGET SITUATION WAS DIFFERENT. WE CANNOT JUST KEEP ADDING TO THE FEDERAL DEFICIT, AND IF, IN THE BUDGET PROCESS THIS YEAR, SOME REVENUES RESULT, THERE IS STRONG FEELING THAT THESE REVENUES SHOULD BE APPLIED TO REDUCING THE DEFICIT AND NOT EXPANDING PROGRAMS OR CREATING NEW ONES. ULTIMATELY, ANY ADDITIONAL FUNDING FOR WIC WILL BE DETERMINED BY THE APPROPRIATIONS COMMITTEES IN THE HOUSE AND SENATE. I WILL SUPPORT ANY INCREASES THE SENATE APPROPRIATIONS COMMITTEE CONSIDERS APPROPRIATE.

EXPANDING THE WIC PROGRAM: RELATED ISSUES

EXPANDING THE WIC PROGRAM TO THE EXTENT THAT IT BECOMES ALMOST AN ENTITLEMENT RAISES SOME ISSUES WHICH WE SHOULD CAREFULLY CONSIDER. THIS KIND OF DIRECTION MIGHT REALLY DESTROY THE SPECIAL IDENTITY AND CHARACTER OF THE PROGRAM AS WE KNOW IT, AND SOME VERY PROMINENT WIC DIRECTORS HAVE EXPRESSED EXACTLY THIS CONCERN.

IT IS SOMEWHAT INTERESTING TO REVIEW PAST HISTORY AND COMMENTS MADE BY THOSE WHO WERE INSTRUMENTAL IN BEGINNING THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN. I PARTICIPATED IN THIS EFFORT, ALONGSIDE SENATORS GEORGE MCGOVERN AND HUBERT HUMPHREY. IN FACT, SENATOR HUMPHREY EXPRESSED THESE VIEWS OF THE PROGRAM BACK IN 1977, AND THEY REMAIN CURRENT ISSUES:

> ONE OF THE MOST CONTROVERSIAL DIFFICULTIES ENCOUNTERED BY THE WIC PROGRAM IS DETERMINING ELIGIBILITY FOR PARTICIPATION. WIC, OF COURSE WAS INTENDED AS A PREVENTIVE PROGRAM FOR PREGNANT WOMEN, INFANTS AND CHILDREN WHO ARE DETERMINED TO BE AT NUTRITIONAL RISK. THIS IMMEDIATELY RAISES SEVERAL PROBLEMS. IS LOW-INCOME SUFFICIENT TO QUALIFY AN INDIVIDUAL FOR THE PROGRAM? IF THE PERSON MUST FIRST EXHIBIT CERTAIN NUTRITIONAL DEFICIENCIES, IS IT NO LONGER A PREVENTIVE BUT RATHER A TREATMENT PROGRAM?
>
> THIS LEADS TO STILL OTHER PHILOSOPHICAL AND PRAGMATIC QUESTIONS. SHOULD AN INDIVIDUAL BE DROPPED FROM THE PROGRAM IF HE OR SHE NO LONGER EXHIBITS DEFICIENCIES, AND ON WHAT BASIS SHOULD A CLIENT BE RE-CERTIFIED?
>
> MOREOVER, IS A LOW INCOME INDIVIDUAL EVER REALLY OUT OF NUTRITIONAL RISK? DROPPING LOW INCOME INDIVIDUALS FROM THE PROGRAM WILL LIKELY INSURE THEIR RETURN TO THE PROGRAM ONCE THEY AGAIN HAVE DEMONSTRATED AN OBVIOUS DEFICIENCY.

EVALUATION REPORTS

ALREADY, IN A 1985 REPORT BY THE GENERAL ACCOUNTING OFFICE, THE PROGRAM HAS COME UNDER FIRE FOR THE WAY IT IS BEING RUN IN SOME STATES. THOSE STATES WHICH ARE VIEWED TO ADMINISTER THE PROGRAM EFFECTIVELY ARE SERVING A HIGH PERCENTAGE OF HIGH PRIORITY WOMEN, INFANTS AND CHILDREN. OTHER STATES FILL UP THEIR CASELOAD WITH LESSER SUCCESS, AND DO NOT SERVE A HIGH PERCENTAGE OF THOSE MOST IN NEED. IF ANYONE HAS ANY QUESTIONS ON THIS DATA, I WILL BE HAPPY TO SHOW YOU THIS REPORT.

OTHER REPORTS ARE GLOWING. A RECENT FIVE-YEAR NATIONAL EVALUATION CONDUCTED BY DR. DAVID RUSH AND RELEASED BY THE U.S. DEPARTMENT OF AGRICULTURE, DEMONSTRATED THAT WIC IS ONE OF THE MOST EFFECTIVE AND

SUCCESSFUL PROGRAMS THE FEDERAL GOVERNMENT OPERATES. THE EVALUATION FOUND THAT WIC REDUCES LATE FETAL DEATHS AND THE INCIDENCE OF LOW BIRTHWEIGHT, THE LEADING CAUSE OF INFANT MORTALITY; INCREASES THE HEAD CIRCUMFERENCE OF INFANTS WHOSE MOTHERS PARTICIPATE IN WIC DURING PREGNANCY (HEAD SIZE REFLECTS BRAIN GROWTH); AND INCREASES THE NUMBER OF LOW INCOME WOMEN GETTING ADEQUATE PRENATAL CARE. ADEQUATE PRENATAL CARE WAS CITED IN THE 1985 INSTITUTE OF MEDICINE REPORT, PREVENTING LOW BIRTHWEIGHT, AS AN ESSENTIAL PREREQUISITE FOR THE REDUCTION OF LOW BIRTHWEIGHT. THE NATIONAL EVALUATION ALSO FOUND THAT WIC IMPROVES THE DIETS OF PARTICIPATING WOMEN AND CHILDREN. ANOTHER SIGNIFICANT STUDY BY RESEARCHERS FROM THE YALE SCHOOL OF MEDICINE -- DOCUMENTED IN A 1985 ARTICLE IN THE NEW ENGLAND JOURNAL OF MEDICINE -- FOUND THAT WIC REDUCES IRON DEFICIENCY ANEMIA AMONG LOW-INCOME CHILDREN.

THERE IS NO QUESTION THAT THE WIC PROGRAM HAS BEEN ONE OF THE MOST SUCCESSFUL FEDERAL PROGRAMS. HOWEVER, AS WITH ANY GREAT PROGRAM, THIS DOES NOT MEAN THAT THERE IS NO ROOM FOR IMPROVEMENT. THE PURPOSE OF THIS HEARING IS TO EVALUATE THE CURRENT PROGRAM TO DETERMINE WHAT FURTHER CHANGES MAY BE MADE AND HOW PROGRAM RESOURCES MAY BEST BE TARGETED TO THE HIGHEST PRIORITY WOMEN, INFANTS AND CHILDREN.

SENATOR RUDY BOSCHWITZ
STATEMENT FOR NUTRITION SUBCOMMITTEE
HEARING ON THE WIC PROGRAM
JUNE 11, 1987

Mr. Chairman, I am pleased to join you today as the Nutrition and Investigations Subcommittee takes a look at the WIC program. I commend you for calling these hearings because I think there are several pending issues in the WIC program that we need to look at before the program is due to be reauthorized in 1990.

The WIC program provides supplemental foods and nutrition education to low-income pregnant women, mothers, infants, and children (up to five years old). WIC participants must meet both nutritional risk and income criteria. The nutritional risk criteria is set by the individual states and income is limited to 185 percent of poverty. In most states WIC participants receive vouchers for the purchase of food which can be redeemed at local grocery stores.

As a member of this Subcommittee I have been a strong supporter of the WIC program. There is a great deal of evidence that shows that our federal nutrition programs have gone a long way toward ending hunger in the United States. For example, because of the WIC program many babies weigh more at birth, many children are healthier in their first five years, and these children establish a better health picture for subsequent years.

This brings me to one of the issues being discussed today, the Bread for the World resolution calling for more funding and increased participation in the WIC program. Despite everything I just said about the WIC program I have not cosponsored this resolution. This resolution calls for serving 65% of all women, infants, and children who are eligible by 1991. The Congressional Budget Office estimated that would cost $1.6 billion. I realize their estimate is based on income criteria only, and not limited by those at nutritional risk. However, I think that illustrates one of my concerns. If we establish as our goal for the WIC program serving all those who are eligible, perhaps the eligibility standards should be set at the federal level so we can get a better handle on those who need to be served and are being served. I do not intend in any way to criticize the states and their ability to set nutritional risk criteria. It just seems somewhat confusing to me to say we want to serve 65 or ultimately 100% of a set pool of recipients but we are not going to determine who is in that pool.

I am also troubled by the procedure of removing the authorized level of the program in an appropriations bill, and passing a resolution calling for more funding. This leaves the authorization of WIC at "such sums as necessary" for FY87, FY88, and FY89. It seems to me that if in reauthorizing the child nutrition programs last year we had not had an authorized level for FY 89, the conferees on the authorizing committees would have established a clearer record of what funding levels or even participation levels the authorizing committee intended. Oversight of the funding level of this program seems to be slipping away from this committee.

Another issue that should be discussed today is states using competitive bidding or rebate systems. I think we all share in the goal of serving more people for less dollars. I do have some concerns about limiting WIC purchases to one brand of infant formula. I realize some states use warehouse systems that even limit choice more, and some states are just beginning to experiment with these systems. I am anxious to hear their testimony.

As states figure out ways to hold down food costs and serve more people with the same amount of food dollars they are finding their administrative dollars stretched. I am sympathetic with the predicament but concerned with spending less than 80% of the WIC money on feeding needy women, infants, and children.

I am looking forward to hearing the testimony and being enlightened on these issues.

TESTIMONY OF JOHN W. BODE
ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
NUTRITION AND INVESTIGATIONS SUBCOMMITTEE
SENATE AGRICULTURE COMMITTEE
JUNE 11, 1987

Thank you, Mr. Chairman, for the invitation to appear before the Subcommittee today to discuss certain administrative and funding issues pertaining to the WIC Program. We welcome the opportunity to explore these issues with you since they are ones which have occupied our attention for some months and which have substantial implications for the operation of the program.

The National Association of WIC Directors has identified four program issues which they believe merit the attention of Congress.

First, in the matter of competitive bidding to reduce the cost of infant formula, which some States are attempting, they seek a portion of the savings achieved for administrative funding.

Second, they propose a new indexing provision which would separately index food and direct services.

Third, they urge support for increased WIC funding by $150 million in Fiscal Year 1988 and increasingly more for the next three years.

Fourth, they propose a legislative requirement that new regulations covering food and administrative funding formulas and any indexing procedures be subject to review prior to Fiscal Year 1990 program reauthorization.

It is striking that all these concerns have to do with funding, and particularly administrative funding, for a grant program under which, by legislative mandate, 20 percent of all appropriated funds are reserved for administration and nutrition services. This is a higher share of funds for non-benefit purposes than is the case with most other Federal assistance programs, including Food Stamps and Aid to Families with Dependent Children.

I would like to comment on each of these issue areas.

Competitive Bidding

Some States are initiating cost containment efforts to reduce the cost of infant formula through competitive bidding. The National Association of WIC Directors proposes that Congress direct the Department to issue waivers to these States, allowing them to use a portion of these food savings to increase administrative funding. Failing that outcome, they seek a change in the statute to earmark 20 percent of the savings for administrative funding.

We do not believe that conversion of rebated food funds to administrative use is subject to the Department's discretion under the existing law. In our recent work with the National

Association of WIC Directors, we have disagreed with the suggestion of WIC administrative funding growth through diversion of food funds to administrative costs in States that implement a rebate system for infant formula. Many States have already reduced food package costs without any guarantee of an immediate increase in administrative funding. By doing so, they have extended their WIC grants to cover more eligible women, infants, and children in a manner that respects the taxpayers' expectation that Federal dollars will be used wisely and well.

There is wide variation between States in WIC food and administrative costs per participant, as indicated by the State-by-State listing attached to my written statement. It is apparent that many States have made decisions concerning which alternatives to include in the food package, which retail outlets may participate, and what type of delivery system to use. Those States which have made these decisions responsibly have succeeded in stretching their WIC grants to serve more eligible participants.

We want to reward these initiatives and are working to modify the administrative funding formula to accomplish this, primarily through participation-based funding. However, we believe that neither current law nor prudent policy supports the diversion of funds intended to buy food for needy women, infants and children into the administrative coffers of State and local health departments.

The example of Tennessee illustrates our concern that any automatic earmarking of food costs savings for administrative expenses might not be wise. Tennessee's food and administrative costs per person are among the highest in the country. The savings Tennessee hopes to achieve through its rebate system and the resultant increase in participation will bring its administrative costs per person more in line with other States. In general, we believe that it is unwise to reduce the amount of the WIC grant going to participants below the 80 percent level specified in the law, as the National Association of WIC Directors has proposed.

Indexing the Administrative and Food Grants

The National Association of WIC Directors has proposed indexing WIC funds, with the indexing rates being different for food and administrative funds. Over time, this would alter the 80/20 division of funding. We oppose this change. WIC administrative funds have continued to grow at the pace of total funding, while other programs have been frozen or reduced during these times of budget restraint. With such generous administrative funding to begin with, we believe it is reasonable to expect some belt-tightening. The amount of money available for WIC administration has increased from $153 million in 1980 to $323 million in Fiscal Year 1986, a 111 percent increase. Attached is a listing of administrative grants and participation for the same period on a State-by-State basis.

The Association argues that, since food price inflation is lower than inflation for providing services, the administrative funds portion is being eroded. This argument ignores three factors. First, as WIC has expanded, economies of scale have arisen to help control costs. A program twice as large does not cost twice as much to administer. As State and local agencies have increased caseloads, they can better use computerization and can spread certain costs, such as development of nutrition education materials or general administrative practices, over more participants. Second, over time States achieve operational efficiencies as new systems evolve and become routine. States were able to start their WIC programs, hire staff, open new clinics, develop administrative procedures, and the like for 20 cents on the dollar. Certainly, they should be able to add new participants to existing, well-established programs for 20 cents on the dollar. Third, most WIC State agencies have significant potential to improve their efficiency. For example, in Fiscal Year 1986 the average administrative cost per person for the Iowa WIC program was about three-fifths of that in Arkansas and about four-fifths the national average. Many States could learn from States such as Iowa. The administrative funding formula modification which we intend to propose would make State administrative funding per person more equal.

One of the measures used to support increases of administrative grants was a reported participant-to-staff ratio of 260 to 1. While that sounds high, a 260 to 1 participant to staff ratio means serving, on the average, about 12 people per work day (at 21.5 work days per month). At this rate an "average" staff person's typical day might include:

- Certifying 2 participants, including determining income and nutritional risk, providing nutrition education and issuing vouchers;
- Providing nutrition education to 2 other participants' caregivers and issuing vouchers to them;
- Issuing vouchers to 8 other participants; and
- Conducting other necessary administrative and professional duties as needed.

In fact, since a family may have more than one participant being served at a time, the number of parents or caregivers seen is somewhat less. A mother and child may be seen at one time.

To enable States to improve their management and further contain administrative costs, the Department has been working cooperatively with the National Association of WIC Directors in Focus on Management, a joint effort to improve management, and establish performance standards in four areas: caseload management, administrative funds management, vendor management and nutritional services. FNS is now conducting a two-and-a-half year study of administrative funds management in WIC that will tell us how States spend their money, how this relates to program quality and how to improve program efficiency and effectiveness.

Finally, if a State believes administrative funding is inadequate, it may always supplement the Federal administrative funds. Funding matches are not required in WIC, but they are the norm in other programs, such as Food Stamps or the Maternal and Child Health Services Block Grant.

Level of Program Funding Related to Need

The National Association of WIC Directors proposes further expansion of WIC funding--both food and administrative funding--based on the resolution sponsored by Senator DeConcini. Using the administration's proposed WIC budget for Fiscal Year 1988 of $1,688 million as a base, if implemented, this resolution would increase WIC expenditures by $150 million in 1988 and $2.3 billion over current services over the next four years. This would come on the heels of a doubling of WIC funding and a 73 percent increase in participation since 1980.

We are concerned that the dramatic increases in WIC funding advocated by the National Association of WIC Directors and by Bread for the World would not necessarily go to those most in need. Increased funding may well go to increase participation of less needy people with problems only marginally related to poor nutrition.

We must remember that WIC is primarily a supplemental health program, not an entitlement program. It uses a priority system to provide first access to those who most need it. This is a sound system and we are working to make it even better. Recent research shows that in 1984 WIC served two-fifths of all eligible people, based on the number of women, infants and children with incomes below

185 percent of poverty and with "nutritional risks". But it serves two-thirds of eligible pregnant women below poverty level and nearly 9 out of 10 eligible infants. Due to declines in poverty and recent WIC program growth, the coverage rates are probably even better today. Today, approximately one in four American infants under one year old participate in WIC.

With over 3 million low income women, infants and childen currently participating, further program improvements should come through more efficient management of existing food and administrative resources, rather than through further unfocused funding increases. The proposed funding formula rule, for example, encourages States to target funds to those who can most benefit from participation -- pregnant women and infants. Some States are developing cost-containment initiatives that will increase competition in the infant formula market, and substantially lower food package costs. The Administration supports and will work to increase free market competition. We applaud the dual benefits from the infant formula initiatives of increasing benefits within existing resources, and increasing competition within a limited market.

Assurances to Re-Evaluate Changes Prior to 1990 Program Reauthorization

Finally, the National Association of WIC Directors asked for assurances in the form of report language that changes in the WIC funding formulas would be re-evaluated before the Fiscal

Year 1990 reauthorization. Of course, we routinely attempt to monitor all policies for appropriateness and funding formulas would certainly be no exception. While we plan to codify the funding formulas as regulations, this does not prevent later changes if the need arises. We would welcome a continued dialogue with the National Association of WIC Directors and the Congress on this and other subjects.

That concludes my testimony, Mr. Chairman. I will be happy to respond to your questions.

W I C PROGRAM

FISCAL YEAR 1986
AVERAGE MONTHLY COST PER PERSON

STATE AGENCY	FOOD	ADMIN	TOTAL
CONNECTICUT	$33.80	$9.15	$42.95
MAINE	28.17	8.47	36.64
MASSACHUSETTS	30.96	7.84	38.80
N HAMPSHIRE	30.12	9.95	40.07
NEW YORK	38.01	9.46	47.47
R ISLAND	31.95	10.74	42.69
VERMONT	26.03	10.18	36.21
INDIAN TWSHP	29.93	17.29	47.22
PL POINT	33.60	17.80	51.40
PENOBSCOT	30.41	15.11	45.52
SENECA NATION	37.82	9.81	47.63
SUBTOTAL	$35.13	$9.24	$41.13
DELAWARE	32.15	9.17	41.32
MARYLAND	28.20	8.67	36.87
NEW JERSEY	31.44	8.39	39.83
PENNSYLVANIA	26.40	6.36	32.76
PUERTO RICO	41.34	6.41	47.75
VIRGINIA	31.06	7.75	38.81
V ISLANDS	38.56	11.61	50.17
W VIRGINIA	30.93	8.48	39.41
DIST COLUMBIA	32.70	10.03	42.73
SUBTOTAL	$31.88	$7.36	$39.89
ALABAMA	30.19	8.53	38.72
FLORIDA	32.25	7.62	39.87
GEORGIA	30.66	7.12	37.78
KENTUCKY	35.55	8.00	43.55
MISSISSIPPI	23.04	7.38	30.42
N CAROLINA	29.89	7.24	37.13
S CAROLINA	31.51	7.65	39.16
TENNESSEE	33.88	8.59	42.47
SEMINOLES	38.09	21.72	59.81
MICCOSUKEE	33.27	15.15	48.42
CHOCTAW, MS	31.71	11.05	42.76
E. CHEROKEE	30.46	14.65	45.11
SUBTOTAL	$30.60	$7.69	$39.40
ILLINOIS	27.47	6.96	34.43
INDIANA	27.38	7.32	34.70
MICHIGAN	30.97	7.68	38.65
MINNESOTA	28.80	8.10	36.90
OHIO	24.53	7.05	31.58
WISCONSIN	27.59	7.04	34.63
SUBTOTAL	$27.43	$7.27	$35.06

W I C PROGRAM

FISCAL YEAR 1986
AVERAGE MONTHLY COST PER PERSON

STATE AGENCY	FOOD	ADMIN	TOTAL
ARKANSAS	$38.72	$11.12	$49.84
LOUISIANA	36.54	8.06	44.60
NEW MEXICO	36.82	9.88	46.70
OKLAHOMA	34.76	9.38	44.14
TEXAS	32.25	7.53	39.78
ACL, NM	34.28	12.45	46.73
8N PUEBLO	33.59	15.14	48.73
ISLETA	32.61	15.73	48.34
SANTO DOMINGO	36.14	15.47	51.61
5 SANDOVAL	34.58	16.72	51.30
SAN FELIPE	36.40	15.70	52.10
WCD, ENT	33.19	11.88	45.07
CHOCTAW, OK	30.81	9.65	40.46
CHEROKEE	34.98	10.13	45.11
CHICKASAW	32.65	12.09	44.74
TONKAWA	34.99	15.84	50.83
POTAWATOMI	32.64	13.43	46.07
ZUNI	34.61	12.36	46.97
ITC, OK	32.55	15.86	48.41
SUBTOTAL	$34.20	$8.35	$42.72
COLORADO	30.69	8.18	38.87
IOWA	27.61	6.65	34.26
KANSAS	30.48	8.37	38.85
MISSOURI	35.75	8.23	43.98
MONTANA	29.20	9.64	38.84
NEBRASKA	29.09	9.23	38.32
N DAKOTA	29.92	10.60	40.52
S DAKOTA	30.58	8.44	39.02
UTAH	30.96	8.97	39.93
WYOMING	27.69	9.34	37.03
SHOSH/ARA	33.06	14.88	47.94
UTE MTN	32.56	13.64	46.20
WINNEBAGO	33.98	12.45	46.43
CHEYENNE RV	34.80	14.59	49.39
ROSEBUD	31.91	10.31	42.22
ST ROCK	34.83	10.47	45.30
FT BERTHOLD	35.45	12.46	47.91
SUBTOTAL	$31.14	$8.46	$40.29
ALASKA	39.84	16.56	56.40
ARIZONA	33.30	8.71	42.01
CALIFORNIA	35.77	7.33	43.10
HAWAII	41.51	11.88	53.39
IDAHO	32.03	8.69	40.72
NEVADA	31.10	9.43	40.53
OREGON	32.29	8.56	40.85
WASHINGTON	33.76	9.51	43.27
ITCN	33.82	12.35	46.17
MANNILAQ	59.72	21.95	81.67
NAVAJOS	43.87	11.27	51.83
GUAM	40.56	10.11	53.98
ITCA	34.24	11.22	45.46
SUBTOTAL	$35.35	$8.23	$39.60
NATIONAL	$31.82	$7.96	$39.78

WIC PROGRAM

ADMINISTRATIVE GRANT LEVELS

STATE AGENCY	FY 1980	FY 1986
CONNECTICUT	$2,904,283	$4,988,192
MAINE	983,679	1,904,692
MASSACHUSETTS	2,884,402	5,362,215
N HAMPSHIRE	593,811	1,589,143
NEW YORK	10,644,788	26,739,007
R ISLAND	867,697	1,772,314
VERMONT	1,306,035	1,877,198
INDIAN TWSHP	30,769	20,794
PL POINT	26,388	22,498
PENOBSCOT	28,218	10,455
SENECA NATION	54,184	79,483
SUBTOTAL	$9,625,282	$44,365,991
DELAWARE	403,497	823,068
MARYLAND	2,470,794	4,426,359
NEW JERSEY	3,657,705	7,254,469
PENNSYLVANIA	5,432,435	11,792,623
PUERTO RICO	2,969,034	8,506,365
VIRGINIA	3,680,765	5,981,702
V ISLANDS	242,100	917,957
W VIRGINIA	1,658,381	2,955,067
DIST COLUMBIA	N/O	1,335,004
SUBTOTAL	$31,213,683	$43,992,614
ALABAMA	3,536,328	7,262,338
FLORIDA	4,598,384	9,900,980
GEORGIA	4,617,761	10,085,395
KENTUCKY	3,501,250	6,411,750
MISSISSIPPI	3,650,146	8,220,618
N CAROLINA	5,513,747	9,350,140
S CAROLINA	3,738,367	6,926,951
TENNESSEE	3,549,190	7,017,098
SEMINOLES	31,656	43,518
MICCOSUKEE	N/O	10,499
CHOCTAW, MS	93,466	107,659
E. CHEROKEE	91,142	116,582
SUBTOTAL	$32,921,437	$65,453,528
ILLINOIS	6,599,341	12,317,476
INDIANA	2,384,455	5,939,606
MICHIGAN	5,241,025	11,766,241
MINNESOTA	2,367,037	5,362,619
OHIO	7,391,888	15,531,427
WISCONSIN	2,547,146	5,513,449
SUBTOTAL	$26,530,892	$56,430,818

N/O = NOT OPERATIONAL

W I C PROGRAM

ADMINISTRATIVE GRANT LEVELS

STATE AGENCY	FY 1980	FY 1986
ARKANSAS	$1,911,307	$4,369,326
LOUISIANA	4,591,212	8,842,873
NEW MEXICO	1,026,979	2,614,485
OKLAHOMA	1,852,945	4,190,359
TEXAS	8,687,927	20,721,152
ACL, NM	34,965	69,138
8N PUEBLO	41,243	87,387
ISLETA	28,125	88,653
SANTO DOMINGO	29,152	57,118
5 SANDOVAL	83,367	79,648
SAN FELIPE	N/O	49,713
WCD, ENT	189,014	217,801
CHOCTAW, OK	139,744	254,939
CHEROKEE	336,826	513,543
CHICKASAW	61,283	143,252
TONKAWA	53,574	93,179
POTAWATOMI	46,991	160,976
ZUNI	38,433	73,217
ITC, OK	N/O	28,411
SUBTOTAL	$19,153,087	$42,655,170
COLORADO	1,722,117	3,405,259
IOWA	1,589,925	3,025,641
KANSAS	1,311,864	2,906,623
MISSOURI	3,154,456	5,723,845
MONTANA	1,031,731	1,504,121
NEBRASKA	952,023	2,155,087
N DAKOTA	658,244	1,408,765
S DAKOTA	673,743	1,303,805
UTAH	1,476,324	3,269,781
WYOMING	68,194	827,926
SHOSH/ARA	69,894	116,579
UTE MTN	26,954	16,839
WINNEBAGO	48,392	79,857
CHEYENNE RV	79,847	118,375
ROSEBUD	114,164	187,076
ST ROCK	116,119	142,453
FT BERTHOLD	26,100	69,852
SUBTOTAL	$13,120,091	$26,261,884
ALASKA	209,219	952,628
ARIZONA	2,962,946	3,231,718
CALIFORNIA	10,224,835	24,361,786
HAWAII	524,359	1,188,215
IDAHO	1,007,693	1,835,221
NEVADA	652,471	1,288,385
OREGON	2,205,829	3,288,097
WASHINGTON	2,448,334	4,365,639
ITCN	71,565	161,909
MANNILAQ	48,150	78,580
NAVAJOS	N/O	2,069,596
GUAM	N/O	307,435
ITCA	N/O	526,875
SUBTOTAL	$20,355,401	$43,656,084
NATIONAL	$152,919,873	$322,816,089

N/O = NOT OPERATIONAL.

W I C PROGRAM

AVERAGE MONTHLY PARTICIPATION

STATE AGENCY	FY 1980	FY 1986
CONNECTICUT	34,404	45,455
MAINE	12,308	18,613
MASSACHUSETTS	32,411	56,970
N HAMPSHIRE	5,613	13,308
NEW YORK	154,645	235,658
R ISLAND	7,951	13,747
VERMONT	16,345	15,363
INDIAN TWSHP	38	96
PL POINT	59	105
PENOBSCOT	31	57
SENECA NATION	399	417
SUBTOTAL	264,204	399,789
DELAWARE	4,273	7,216
MARYLAND	38,082	42,549
NEW JERSEY	44,481	68,898
PENNSYLVANIA	75,994	151,510
PUERTO RICO	39,238	110,623
VIRGINIA	46,592	66,882
V ISLANDS	2,747	6,591
W VIRGINIA	17,256	28,890
DIST COLUMBIA	N/O	10,935
SUBTOTAL	268,663	494,094
ALABAMA	46,875	70,951
FLORIDA	63,224	108,242
GEORGIA	59,870	116,853
KENTUCKY	45,190	64,114
MISSISSIPPI	53,855	91,587
N CAROLINA	80,837	103,120
S CAROLINA	51,597	73,427
TENNESSEE	49,406	68,059
SEMINOLES	169	167
MICCOSUKEE	N/O	54
CHOCTAW, MS	745	655
E. CHEROKEE	748	663
SUBTOTAL	452,516	697,892
ILLINOIS	70,577	147,506
INDIANA	27,352	65,643
MICHIGAN	57,477	123,329
MINNESOTA	29,428	54,877
OHIO	90,367	182,264
WISCONSIN	34,799	62,313
SUBTOTAL	310,000	635,932

N/O = NOT OPERATIONAL

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WIC PROGRAM

AVERAGE MONTHLY PARTICIPATION

STATE AGENCY	FY 1980	FY 1986
ARKANSAS	19,517	32,756
LOUISIANA	54,730	90,915
NEW MEXICO	10,505	21,170
OKLAHOMA	22,254	37,247
TEXAS	110,129	219,491
ACL, NM	405	442
8N PUEBLO	333	467
ISLETA	224	462
SANTO DOMINGO	262	307
5 SANDOVAL	670	397
SAN FELIPE	N/O	264
WCD, ENT	2,243	1,514
CHOCTAW, OK	1,504	2,016
CHEROKEE	2,793	4,111
CHICKASAW	600	987
TONKAWA	388	491
POTAWATOMI	457	999
ZUNI	250	495
ITC, OK	N/O	147
SUBTOTAL	227,264	414,678
COLORADO	19,188	33,439
IOWA	20,623	36,411
KANSAS	14,473	28,013
MISSOURI	37,344	57,125
MONTANA	12,731	12,880
NEBRASKA	10,982	18,664
N DAKOTA	7,725	10,965
S DAKOTA	5,573	11,567
UTAH	16,307	28,767
WYOMING	194	7,652
SHOSH/ARA	620	653
UTE MTN	96	99
WINNEBAGO	447	544
CHEYENNE RV	672	664
ROSEBUD	993	1,443
ST ROCK	789	1,112
FT BERTHOLD	332	467
SUBTOTAL	149,089	250,465
ALASKA	1,025	4,298
ARIZONA	37,112	29,891
CALIFORNIA	133,458	255,521
HAWAII	3,841	8,269
IDAHO	9,740	16,318
NEVADA	8,434	11,298
OREGON	21,461	32,023
WASHINGTON	26,736	38,253
ITCN	768	1,095
MANNILAQ	115	274
NAVAJOS	N/O	15,384
GUAM	N/O	2,286
ITCA	N/O	3,914
SUBTOTAL	242,690	418,824
NATIONAL	1,914,426	3,311,674

N/O=NOT OPERATIONAL

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Material submitted for the subcommittee:

Q. How many additional people could be served by the WIC Program if, like in Tennessee, there was a 48 cent rebate per can of infant formula?

A. If competitive bidding for rebates took place in all States, the rebates levels would vary according to bid strategies and other business considerations (e.g., shipping distance from the plants). Thus, we cannot estimate the level of rebates offered if this was done by all State agencies.

If a rebate of 48 cents per can of infant formula were received for all States (not including Mississippi, Vermont and Ohio which already use competitive bidding for direct distribution and home delivery systems), we roughly estimate that an additional 400 thousand people could be served per month, a participation increase of 12 percent. The calculations for this are shown in the next page.

Given the uncertainty of rebate levels in nationwide implementation, a more reasonable range of participation increase is 5 to 15 percent.

ESTIMATE FOR NATIONAL WIC PARTICIPATION INCREASE ACHIEVED,

ASSUMING 48 CENTS REBATE FOR EACH CAN OF INFANT FORMULA

Average monthly infants served in WIC*	1,007,203
Less infants in competitive bidding States: Mississippi, Ohio and Vermont*	- 84,712
Infant participation for which rebates are applicable	= 922,491
Average cans of formula issued per month**	x 28
Rebate per can	x $.48
95% utilization rate***	x .95
Projected savings per month	= $11,778,365
Adjusted average monthly food package cost (see below)	÷ $28.95
Addtional persons served per month	= 406,851

Adjusted average monthly food package cost (accounts for rebate savings)

Annual projected food costs*	$1,326,055,936
Annual projected rebate savings	- $141,340,380
Projected annual participation*	÷ 40,917,350
Adjusted food pacakge cost	= $28.95

* Based on annualized projections from October 1986 to March 1987

** WIC Participant Characteristics Study

*** Assumes that 5 percent of the time, non-rebate formulas are issued, based on doctor's prescription, etc.

JUN 17 1987

Q. Please discuss Mr. Greenstein's claim that almost $2 million in WIC funds were lapsed and returned to the Treasury. He claims that these funds came disproportionately from WIC research funds and not from the Food and Nutrition Service's Food Program Admininistration (FPA) funds.

A. Between Fiscal Years 1985 and 1986, the following WIC funds were lapsed:

1985	$1,000,000	for Section 515 of the Treasury, Postal Service and General Government Appropriation Act
1986	$506,327	for Section 515 of the Treasury, Postal Service and General Government Appropriation Act
Total	$1,506,327	

This does not include an additional $86,000 sequestered from WIC research funds in Fiscal Year 1986 pursuant to the Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings). Although general WIC funding is exempt, the research funds are not exempt from sequestration.

Mr. Greenstein's concern is largely focused on the funding lapses which were required by Section 515. Section 515 required that most agencies across government reduce consulting costs by 10 percent to reduce the deficit. Section 515 did not require that each consulting account be cut 10 percent on a pro rata basis, but permitted agency discretion in carrying out the mandates.

The primary consulting accounts for the Food and Nutrition Service are the Food Stamp, Child Nutrition and WIC research accounts. Since 1981, no research consulting has been paid for out of the FPA account. Thus, we did not protect this account; it had nothing to contribute in the reduction of consulting funds. We further note that in 1986 the FPA account realized substantial reductions anyway ($4.021 million from Gramm-Rudman-Hollings and $495 thousand from the 0.6 percent reduction in the Continuing Resolution for that year).

FNS determined how to structure the reductions from the three research budget accounts based on current research funding commitments and projects planned at the time. No planned research projects were terminated due to the funding reductions. The reduced funding was handled by spreading project costs over more years, slightly reducing funding for specific projects and delaying starting dates.

Senator **Harkin**. Mr. Bode, you say you do not believe that conversion of rebated food funds to administrative use is subject to the Department's discretion under the existing law. I want you to expand on that a little. I thought that could be done. Are you saying that it would be absolutely illegal for you to do that?

Mr. **Bode**. Sir, we recently received an opinion from our Office of the General Counsel on the subject because there had been some question about that. And I would be pleased to provide that for the record. You have accurately summarized what their conclusion was—that it is not a matter of our discretion.

I am not trying to hide behind that. We also feel it would be an inappropriate policy, and I would be delighted——

Senator **Harkin**. I am going to get to that in a second, but I have to get over the first hurdle first. If you cannot do it, then what good does it do to talk about whether you want to do it or not. I, quite frankly, did not know there was a question about the fact that you did not have the legal authority to do that.

I would like to have that written opinion from your general counsel, if I could, Mr. Bode.

Mr. **Bode**. Yes, sir.

Senator **Harkin**. I would like that opinion so we can take a look at it.

[See pages 49–50 for the Office of General Counsel's opinion on Procurement of Infant Formula Rebates for the Special Supplemental Food Program for Women, Infants, and Children (WIC).]

Senator **Harkin**. One of the purposes of this hearing, of course, is to take a look at these things to see if they might need some changes, and if it is the will of the committee, the subcommittee, and the full committee, and of course, the Congress, that they be changed, then we will seek to implement the change. That is what I want to investigate with you this morning.

Mr. **Bode**. Yes, sir.

Senator **Harkin**. You said that many States have already reduced food package costs without any guarantee of an immediate increase in administrative funding. By doing so, they have extended their WIC grant to cover more eligible women, infants and children, et cetera. How do they do that? How have they done that without any increase in administrative funding?

Mr. **Braley**. Senator, States have employed a number of techniques including looking at the food package and tailoring it to the individual participants, taking items out that would not be of benefit to a category of participant, looking at the choices that are offered in items like juices and cheese, and in some cases, keeping the nutritional benefits, but limiting the range of options.

Some States have worked closely with food vendors in their State and looked at those that had high costs and have been able to reduce their food package costs in that way. There are various delivery systems for food. Many States have employed different delivery systems, such as Mississippi, that uses a direct distribution system through warehouses. A number of other States have home delivery in some or all of their local agencies. So, there has been a range of things that States have done to cut their food package costs and maintain appropriate nutritional benefits.

Mr. Bode. If I may give one quick example, Arkansas has recently modified the selection of juices available. We think that that can reduce the average of food package costs in the vicinity of a dollar so that is——

Senator Harkin. How many juices do they have?

Mr. Bode [continuing]. So that is a strong change and significant reduction in cost.

Senator Harkin. What you are saying, instead of offering tomato and orange and prune juice, they offer just orange juice; is that right?

Mr. Bode. It is the form instead.

Mr. Braley. Yes. Full strength juice in a can might cost more than concentrated juice, and they may limit the offering to frozen concentrate instead of things that are reconstituted. It is that type of thing. States can limit the range of cheese, whether or not a State offers sliced cheese in the food package or a number of alternatives, but not quite as processed in that kind of a form for the participants. So there are things that certain States have done to keep costs down, and thereby serve more people.

Senator Harkin. When they save costs that way, they can use the savings to serve more people; right?

Mr. Braley. Yes, sir.

Senator Harkin. I guess this is what I do not understand. If you have competitive bidding, and are saving money on infant formula, as Tennessee is doing, you cannot use those savings to serve more people?

Mr. Bode. No, sir, we are saying it should be used to serve more people.

Senator Harkin. To serve more people. All right. What I am trying to get at is this. They save the money. You say they can serve more people.

Mr. Bode. Yes, sir.

Senator Harkin. But if they cannot use it for administrative costs, how can they serve more people? You are saying, then, Mr. Bode, that the people out there that are operating these programs are working half-time when they should be working full-time, or three-quarters time, or 80 percent of their time. They could better utilize their time to serve more people. Is that what you are saying?

Mr. Bode. We feel that the 20 percent of the moneys in the WIC Program should be the limitation that we keep on administrative funding. We should not undo that 20 percent limitation or allow end-runs around it to undermine its meaningfulness. We feel that the States that we have heard from about increasing the availability of administrative funding for them are the ones that tend to have higher levels of administrative funding. They could do more to reduce their administrative funding costs right now.

So we feel they, in particular, can make some progress and are encouraging them to do it in controlling administrative costs.

Senator Boschwitz. May I ask a question?

Senator Harkin. Surely. Just pitch right in there.

Senator Boschwitz. Mr. Bode, in the event that a State, let us say Tennessee, spends a dollar, and it gets 20 percent, or a dollar is spent on WIC, and they get 20 percent, and there is a rebate involved, they are still getting 20 percent of the gross anyway, are they not? 20 percent of the gross plus 20 percent of the rebate; is that correct?

Mr. Bode. Yes, sir.

Senator Boschwitz. And that is what they now seek?

Mr. Bode. Yes, sir.

Senator Boschwitz. But they are getting 20 percent of the 40 cents or 30 cents that is rebated anyway?

Mr. Bode. They are getting 20 percent of the gross.

Senator Boschwitz. Yes.

Mr. Bode. We do not feel they should get an additional 20 percent of the rebate.

Senator Boschwitz. They are getting—let us presume that the cost of the program is $100,000, or $10 million.

Senator Harkin. Let us use $1,000. I understand that better, okay?

Senator Boschwitz. Well, let us use $1 in that case.

Senator Harkin. All right. [Laughter.]

Bring it down to where we Democrats operate, Rudy.

Senator Boschwitz. And they get 20 percent of the buck. And now there is a rebate through the system they earn 20 percent of the rebate. It is 20 percent of the same money. So they are getting 20 percent of the gross, or am I mistaken?

Mr. Bode. You are correct, sir.

Senator Boschwitz. And the rebate is part of the gross.

Mr. Bode. We feel that when the moneys are recaptured, if you will, through a rebate, those——

Senator Boschwitz. They have already gotten 20 percent of the money that is recaptured; is that correct?

Mr. Bode. No, sir. No, sir. Of the full pot of money initially, the gross, up to 20 percent of that can be spent on administrative funds. Then of the remaining 80 percent food money, a portion of that can be recaptured through the rebate. We feel that since the initial division was made, it is inappropriate to recharacterize that recaptured money and allow a portion of that to go to administrative funding. The initial 80/20 split should hold.

If we recharacterize that a portion of the 80 percent food money is administrative, it would just mean that more than $1 of every $5 go to administrative expenses rather than food package costs.

Senator Boschwitz. That is right. Essentially he said what I said.

Senator Harkin. Yes, I am sorry. I misunderstood.

Senator Boschwitz. But they get 20 percent of the gross up front.

Senator Harkin. Yes.

Senator Boschwitz. And then because they get some of the money back through a rebate.

Senator Harkin. I understand that. But, what I am saying is— Mr. Bode, if you wish to talk, go ahead, because I have to consult with my staff.

Mr. Bode. Do you want to add something because I just want to be sure we are clear?

Senator Harkin. I'm all right.

Mr. Braley. The only point would be that if you took that dollar initially and split it 80 cents and 20 cents, the proposal that the WIC directors are making is that if there was a rebate of 20 cents of that 80 cents, that they would want to recharacterize part of that over into administrative costs like 4 cents over there. So that the total share would be higher than 20 percent.

Senator **Harkin**. Okay, of the initial 20 percent. However—let us follow this through now—a dollar goes out, 80 cents of it for food, 20 cents for administrative costs. Now, Mr. Bode, you yourself admit that the program is only reaching two-fifths of the eligible population. So, 80 cents of every dollar out goes to food.

Now, through competitive bidding and other devices, they are able to get some rebates back, if they take those rebates——

Senator **Boschwitz**. Pardon me. They take the rebates.

Senator **Harkin**. They take the rebate back out of that 80 cents for the food. Then they say, okay, we will put this into administrative costs so that we can serve more people, since you admit we are only serving two-fifths. So, they serve more people. Then I am wondering, are the administrative costs any higher than 20 percent for the universe since they are serving more people with that money? Do I make clear what I am trying to get at?

Mr. **Bode**. Yes, sir. I guess the point I would like to make is that I do not think administrative funding is what is limiting participation in the program. Participation is limited by overall moneys available to provide food as well as administrative funding.

Senator **Harkin**. Yes.

Mr. **Bode**. So we think it is the overall funding level.

Senator **Boschwitz**. The answer to your question, Mr. Chairman, is yes, at least on the first question. Let us say that they get a rebate, and that they keep 20 percent of the prerebated amount, obviously the administrative costs, if there is a rebate, will be larger than 20 percent on the——

Senator **Harkin**. On that first initial block, yes.

Senator **Boschwitz**. Yes, right. And the question is now that they have the rebate and they have the additional funds, and they can go out and serve some additional people, do they need administrative costs to do that. And I guess the question becomes——

Senator **Harkin**. Yes, that is what I want to find out.

Senator **Boschwitz**. Yes, the question becomes they may now be up to 22 or 23 percent on the first portion.

Senator **Harkin**. On the first portion, that is right.

Senator **Boschwitz**. Because of the rebate.

Senator **Harkin**. Correct.

Senator **Boschwitz**. Now do they need an additional 20 percent on the rebaters is the question.

Senator **Harkin**. To go out and serve those additional program participants.

Senator **Boschwitz**. Yes.

Senator **Harkin**. I think that is really the crux of it. You put your finger on it.

Senator **Boschwitz**. Yes, but then they are up to 20—they are in excess of 20 percent on the first 80 cents or whatever it is.

Senator **Harkin**. But, then, to follow that through, if you serve more people then that comes back down again.

Senator **Boschwitz**. No, it does not.

Senator **Harkin**. Sure it does.

Senator BOSCHWITZ. No. If you take 20 percent of the rebate, and you have a larger percent of the first whatever, the unrebated, you are going to be up over 20 percent.

Senator HARKIN. Well, if you took a 20 percent rebate——

Senator BOSCHWITZ. Let us not take a 20 percent rebate because then you are going to mix up your 20 percent.

Senator HARKIN. Take 10 percent. Say 10 percent.

Senator BOSCHWITZ. Let us take 30 percent.

Senator HARKIN. You are not going to use 30 percent. Take 10 percent.

Senator BOSCHWITZ. Take 10 percent, and let us say that you now have a dollar, and 80 cents of that goes to the product and 20 cents goes for administration. Now you get a 10 percent rebate so you get 8 cents back. Now you are spending 72 cents, but you still have 20 cents applying to the 72 cents. And now what you are saying is that you want an additional 20 percent to apply to the 8 cents when you respend it. So you would be up to 21.6 cents overall.

Senator HARKIN. But, how many more people are you serving? You are not serving that same unit. You are expanding the number of people you are serving.

Senator BOSCHWITZ. It is not 20 cents if you figure it that way. But it increases. Clearly the question is can you do it for 20 percent?

Senator HARKIN. Let me read from this prepared statement we will be receiving later today.

Senator BOSCHWITZ. We ought to have them come up.

Senator HARKIN. It says here in Tennessee, they will receive 48 cents per can price enhancement for formula through their competitive bidding.

Senator BOSCHWITZ. Quite an enhancement.

Senator HARKIN. Yes. This could allow us to serve an additional 8 to 10,000 participants per year with an annual savings of approximately $4 million. But, the USDA is saying the cost per participant remains the same. So, again, I've got to flesh this out because we need to ask the question, "Do we want to expand if we are only serving two-fifths of the people that are eligible?" Do we want to serve more eligible people? That is the first question. Do we, Mr. Bode?

Mr. BODE. Yes, sir.

Senator HARKIN. We do want to.

Mr. BODE. May I say, we have been pleased to work with Tennessee and others. I guess our concern is when we move to the next step, do we need to make this kind of change to serve more, and I do not think so. And you look at Tennessee. Tennessee has their administrative costs of $8.59 compared with Iowa's $6.65. Iowa has administrative costs just over three-fourths of the administrative costs of Tennessee.

I do not accept that Tennessee has no other means of curtailing their administrative costs, and I think that it is inappropriate for us to focus on this one mechanism, one of many mechanisms available for States to control food package or administrative costs.

We have talked about one other way that States can limit their food package costs, control them. Another one is better vendor selection by monitoring shelf prices. Now if a State uses that to control their administrative costs, it is not reflected in any adjustment in their administrative funding. So why should we treat this bidding procedure with formula different from every other device used to better manage the moneys available for WIC? We think the overall 20 percent limit makes sense, and should be maintained.

Senator HARKIN. Aside from the normal extra productivity of the people in Iowa, have we looked at the different factors that contribute to why the administrative costs are different from one State to the other? Quite frankly, Mr. Bode, I like what I just heard you say about examining savings in all these areas. And I do not know what your office is doing in that regard, but I am hopeful we will look and see what States are doing in these areas. Like you said, we will look at areas such as pricing on shelves and different things like that.

I like that. I am hopeful that we will look at savings in all areas, not just in this one area we are focused on here, but in all areas. I think you would agree with that.

Mr. BODE. Yes, sir.

Senator HARKIN. I hoped you would agree with that. Now let me follow up on that. What kind of incentive. I am thinking incentives again. What will it give these States if they make these savings and yet are hindered from serving that extra population they know is out there and want to serve? If they make these savings, why can't they use those savings to serve additional people out there? Sure, you can tighten up your administrative procedures and things like that, but if those savings are rebated back so you cannot use them to serve a broader constituency, then what incentive will it be for them to save money?

Mr. BODE. May I, first of all, say, Senator, we agree with you completely on the importance of broad approach in getting the most use possible from the taxpayer's dollar in the WIC Program by controlling food package as well as administrative costs. I glossed over that. There is a statement on our Focus on Management efforts. I glossed over it in summarizing my testimony in the interest of time.

I want to emphasize it is not just USDA. We have been working very well with the National Association of WIC Directors, and I think the States' efforts in working with us are to be commended, and I do not want to bypass commending them for that. I think as far as incentives go, we have a very committed group of administrators at the State level.

They are interested in providing service to as many people as possible through the WIC Program with the moneys available to them, and I see that as the great incentive that is present. Some States have responded to that incentive better than others. That is why we are working with them in our technical assistance efforts that I have referred to as the Focus on Management, to assist them in getting the most use of the dollars. I think the ability to do more good with a given amount of money is a strong incentive for all of us in public service administration. I think it does motivate State managers.

Senator HARKIN. I have a series of questions I want to ask you. Are you familiar with this table from the fiscal year 1987 WIC Program? USDA put this out via your department Food and Consumer

Services. The table is dated April 22, 1987. I want to make sure you know what I am talking about here.

Mr. **Bode**. I am familiar with it generally. I do not have it here in front of me.

Senator **Harkin**. Well, here, I will just show you what I am talking about. Down here it says "Year To Date Food Costs Per Person," and right down here it says $7.84. U.S. total——

Mr. **Bode**. Administrative. Food costs per person is $32.19.

Senator **Harkin**. What is this, administrative costs?

Mr. **Bode**. That is administrative costs per person, sir.

Senator **Harkin**. Per what, month?

Mr. **Bode**. Yes.

Senator **Harkin**. So, year to date, administrative costs per person in the WIC Program is $7.84 per month. That is what it costs, administratively, to serve one person per month.

Mr. **Bode**. National average.

Senator **Harkin**. That is the national average.

Senator **Boschwitz**. What year is that?

Senator **Harkin**. All right, I just wanted to see it. That is the year to date, fiscal year 1987.

Senator **Boschwitz**. I noticed $7.96 and 1986.

Mr. **Bode**. Those are final 1986 numbers that you are referring to, sir.

Senator **Harkin**. So, it costs $7.84 in administrative costs to serve one person on the WIC Program per month, right?

Mr. **Bode**. Yes, the national average.

Senator **Harkin**. All right, we will look at that. What do we get for that $7.84? What happens for $7.84 a month? What do you do?

Mr. **Bode**. On page 6 of my prepared statement is a statement of a staff person's typical day if we take as accurate the 260 to 1 participant-to-staff ratio that the WIC directors refer to. At that participant-to-staff ratio, we would have certification of two participants, including determining income and nutritional risks, providing nutrition education and issuing vouchers, providing nutrition education to two other participants' care givers and issuing vouchers to them, and issuing vouchers to eight other participants and conducting other necessary administrative and professional duties and paperwork.

That would be a typical day, if you will.

Senator **Harkin**. My staff tells me we also get a health assessment?

Mr. **Bode**. Yes, sir. Determining income and nutritional risks.

Mr. **Braley**. That is a health assessment. Nutritional risks.

Senator **Harkin**. Is that a doctor's exam?

Mr. **Bode**. A medical professional, I think, in the majority of cases is not a physician.

Senator **Harkin**. Are there lab costs? The point being, that, we get a health assessment, we get medical exams, lab costs, other administrative activity costs which we do not get in some of the other programs.

Mr. **Bode**. I think we frequently see Medicaid paying for those lab costs.

Senator **Harkin**. Those costs are not picked up in the WIC Program?

Mr. **Bode**. It varies.

Senator **Harkin**. In other words, some would, some would not.

Mr. **Bode**. Yes, sir.

Senator **Harkin**. I see. Does the Food and Nutrition Service use competitive bidding to buy infant formula for any of its programs?

Mr. **Bode**. Anytime the Department of Agriculture is buying we are using competitive bidding procedures, and so, yes, for the Commodity Supplemental Food Program, in particular, we use competitive bidding procedures, and we have recently undertaken some modifications in our practices to assure the broadest possible competition.

Senator **Harkin**. Do you have any idea how much money FNS saves by using competitive bidding?

Mr. **Bode**. I shudder to think what we would do if we did not purchase competitively. Of course, the law requires competitive bidding on major acquisitions, and has for so long, I could not imagine.

Senator **Harkin**. Do you have any idea how much we save by doing competitive bidding for the Commodity Supplemental Food Program?

Mr. **Bode**. No, sir. I guess, you know, given the nature of that program that we acquire large——

Senator **Harkin**. Do you know what you pay per can of infant formula? You do buy infant formula, right?

Mr. **Bode**. Yes.

Senator **Harkin**. How much per can do you pay for infant formula cans or boxes?

Mr. **Braley**. We are paying—I do not have the current price with me—but it is significantly lower than the retail cost, somewhere in the neighborhood of half, the staff tells me.

Senator **Harkin**. You pay about half of what the retail cost is, correct?

Mr. **Braley**. I think that is right. We would have to check that for the record.

Senator **Harkin**. Could you get that information for me?

Mr. **Braley**. Certainly, Senator.

Senator **Harkin**. Yes, please get that for me. I would like to know.

[The information follows:]

Mr. **Braley**. In the February 1987 purchase of infant formula for CSFP, the competitively awarded bulk purchase price was $0.8094 per can. This is a little more than half the retail price of $1.40 to $1.50 per 13 ounce can of liquid concentrate.

Senator **Harkin**. So, you buy infant formula competitively, at about half of what the retail cost is. Do you have any idea how many more infants are served because FNS buys infant formula through this competitive bidding process? Do you have any data, at all, on how many more infants are served?

Mr. **Bode**. I guess we could make an estimate. If one said there were savings because of the difference between the price we pay through our bulk competitive purchase and retail prices, but I think we should also note that those are really two different things. When the Department of Agriculture goes out and buys carlot loads of formula, it is a little different than someone going to their corner grocery store and buying formula. You are paying for delivery and some services there as well that are not included in our purchase price.

Senator **Harkin**. Well, I guess that is what I am saying.

Mr. **Bode**. Yes, sir.

Senator **Harkin**. You buy infant formula competitively and save 50 percent. And, obviously, you serve more, which I think just stands to reason. You have to serve more from this. Let me ask you this, would you, Mr. Bode, then recommend competitive bidding to the States?

Mr. **Bode**. We have been working with the States, and we are eager to see how it works. That is why we have approved modifications in State plans for Tennessee and others, and we are working with others. We are eager to see how it works. We do have some concern in that the WIC Program is such a major part of the overall infant formula market because of the WIC Program's significant increase in size. We are a little concerned about the overall effects on the marketing of infant formula when one sees exclusive rights to WIC infant formula given to one company over another.

Senator **Harkin**. Excuse me, Mr. Bode, I hate to interrupt. I am not talking about exclusive rights; I am talking about competitive bidding.

Mr. **Bode**. Yes, sir, and I realize there are two types of bidding procedures being discussed right now. One would give virtually exclusive rights to one formula company over another for marketing through WIC. The other would have a broader open market approach on rebates. So we are working with States. We are for doing this, and virtually the competitive bidding and virtually everything else we can find, to curtail food package costs so more people can be served with the given amount of moneys provided by Congress.

Senator **Harkin**. I guess I do not know your reticence here. You use it and say you save 50 percent. Yet, when I ask if you would recommend it to the States, you say you want to see how it works out there. I do not know how my reasoning is faulty. If States buy it in bulk and put it out on competitive bids, they are bound to get it cheaper.

Mr. **Bode**. And we have approved that, and have worked with them. What we are talking about, though, is not a State acquisition of a certain amount of product, but instead a sale of the right, if you will, for a certain type of formula to be used as the preferred formula through the WIC Program. The purchase is still made with a voucher at the grocery store, but it would limit, to a preferred type of formula, the use in WIC.

Senator **Harkin**. What is wrong with that if it was competitively bid?

Mr. **Bode**. We have approved State plans to do that. I guess what I am saying is we would like to see how it works in a spot or two before we go encouraging all of the States to do it. We have worked with them and——

Senator **Harkin**. What States are doing it now?

Mr. **Bode**. Tennessee.

Senator **Harkin**. How long has Tennessee done it?

Mr. **Bode**. It has just started since June 1. So we are just getting started with the implementation.

Senator **Boschwitz**. Are they buying the formula in Tennessee or are they getting a rebate? They are under that rebate.

Mr. **Bode**. It is a rebate, and there is competitive bidding for it.

Senator **Boschwitz**. Yes, yes.

Mr. **Bode**. Yes, sir.

Senator **Boschwitz**. But I think the chairman is presuming that they buy it and distribute it?

Senator **Harkin**. No, I know they do not. I know how the WIC Program works.

Senator **Boschwitz**. Oh, okay.

Senator **Harkin**. What they do is they get a competitive bid, and they say this is what we will give you a voucher for. This is how much you pay for it when you go to the store, and we will give you a rebate on it. I understand that, but it is a competitively bid thing.

Mr. **Bode**. Yes, sir.

Senator **Harkin**. Are there other States doing it also?

Mr. **Braley**. Other States are in the process of considering this option, holding hearings and other means of getting public input on it from interested groups in their States. We had an expression of interest from South Carolina. Oregon has expressed an interest and I believe there are several others who are giving some consideration at this point, but are in the process of getting input from people in their States.

Senator **Harkin**. We are interested in seeing if there are any problems with this. There is really no problem with them doing this, right? There are no legal hurdles or anything we have to change are there?

Mr. **Bode**. We have approved Tennessee doing it, sir, and we are pleased to work with them on that.

Senator **Harkin**. What about any other States that want to do it? How about Vermont? I am supposed to ask you about Vermont. Is Vermont doing this, too?

Mr. **Braley**. Vermont has, as I understand it, largely a home delivered system where they procure foods through a vendor that then delivers them to participants in the State like a dairy truck coming through a neighborhood and delivering packages of food. That is done in a few other locations around the country.

Mr. **Bode**. There is competitive bidding for that. The dairy foods, as I recall, in Vermont.

Mr. **Braley**. That is correct, yes.

Senator **Harkin**. My staff tells me, that, in the last 6 years, there has been a 23 percent increase in overall food prices, but a 60 percent increase in the price of formula. That leads me to a couple of questions. When the brand of infant formula which NFS competitively bought was recently changed, did you hear reports of any complaints from mothers that their babies would not drink the new formula? Were there any preferences expressed? Did you hear any complaints?

Mr. **Braley**. Senator, not serious complaints. When the brand changes we do get a few, but not what you would describe as a major objection.

Senator **Harkin**. Are the leading milk-based infant formulas essentially the same in content?

Mr. **Bode**. Yes, sir.

Senator **Boschwitz**. The same what?

Senator **Harkin**. They are essentially the same in content. I understand that the FNS has returned $2 million in WIC funds to the Treasury Department, even though 60 percent of eligible women, infants and children are not served by WIC. Evidently this was done under the Treasury Appropriations Act which requires agencies to reduce consultant costs and return specific percentages to the Treasury. Is this correct?

Mr. **Bode**. Sir, I saw that in Mr. Greenstein's prepared statement, and we were frankly taken by surprise this morning in seeing that. I would be pleased to look into it. It would be helpful to us to have a fuller statement of what he means by that. I would be happy to look into it and report back to the committee.

Senator **Harkin**. Okay.

Mr. **Bode**. Frankly we did not know what he was talking about on that point.

Senator **Harkin**. He is testifying later, so we will ask him and find out. But, if you or your staff stay around and listen——

Mr. **Bode**. One thing that might have been talked about there, and it was a little hard for us to tell, is on the use of studies money. If moneys are not used for WIC studies, we use them in WIC, the regular WIC Program, so it goes for WIC operations, not back to the Treasury. But any funds not spent on WIC studies at a given time, generally goes back into the regular program, not to the Treasury.

It was difficult for us to tell in looking at the statement quickly if that is what he was talking about or something else.

Senator **Harkin**. This last one I had shows that WIC only serves 40 percent of the eligible women, infants and children. Do you have any study that you have done on this matter that showed this 40 percent figure?

Mr. **Bode**. Yes, sir, and we are in the process now of getting the report on that printed. It is being edited for printing. We are hopeful we can have it to you within a matter of weeks, as soon as it is printed.

Senator **Harkin**. Senator Boschwitz, I have been doing all the talking. Anytime you want to jump in, I will recognize you formally.

Senator **Boschwitz**. I have been doing that. Are you done?

Senator **Harkin**. Yes, more or less. I have a couple of other little things, but you go ahead. I recognize Senator Boschwitz.

Senator **Boschwitz**. I have been a very ardent supporter of the WIC Program, Mr. Chairman.

Senator **Harkin**. I know that.

Senator **Boschwitz**. And I do not dispute your 40 percent, but you know since the qualification is 180 percent of poverty, it is also well to point out that two-thirds of the eligible pregnant women below poverty are being served and 9 out of 10 eligible infants below the poverty level.

Mr. **Bode**. That is the information that we have from this study that will be available in full to you as soon as we get it printed.

Senator **Boschwitz**. And that States apparently establish the criteria of nutritional risks and that looking into perhaps a national criteria which may or my not be helpful. Maybe some of the other witnesses would like to comment. I must tell you I have read all this material about the cost of the formula. I am amazed—I will wait for the chairman for the second—but what in the world caused the formula to rise so high? Having some sense of what it costs at retail to distribute the formula, I am amazed that you can buy it at 50 percent off the retail price in bulk. I presume that "in bulk" is not coming in a tanker car?

Mr. BODE. No, sir. It is the individual cans. I think they come 24 to a case.

Senator BOSCHWITZ. I note that the former—I guess one of your predecessors, Mrs. Foreman, or Miss Foreman, caused some restrictions to be put on the purchase of this formula which limited it to three companies, but even then it should not have——

Mr. BODE. And those are no longer in place, sir.

Senator BOSCHWITZ. Oh, those are no longer in place.

Mr. BODE. I requested that Under Secretary Amstutz modify that procedure, and he did.

Senator BOSCHWITZ. Oh, I see. What is the explanation for the formula costing so much, or rising so much?

Mr. BODE. One does hear about it. I think it is best that the infant formula companies speak for themselves. I am not going to try to speak for them. They in times past have talked about the special nature of the product, the high standards of manufacturing they have as well. But I think it is best that they speak for themselves.

Senator BOSCHWITZ. I see that the Inspector General at USDA or somebody at USDA says it is just evaporated milk with vitamins. That does not sound——

Mr. BODE. Was that an unnamed source, Senator?

Senator BOSCHWITZ. I think so. In a column written by Warren Brooks. But I think perhaps some of the subsequent folks who testify would perhaps enlighten us a little bit why the infant formula went up in price so much. It is not clear to me, and it is amazing you can get a rebate of 48 cents. 48 cents from what? From one of those little cans? Which is what percentage of the retail price?

Mr. BRALEY. That rebate in Tennessee is 48 cents, and the retail price of a can of formula like that would be around $1.40, if I am not mistaken.

Senator BOSCHWITZ. So it is one-third.

Mr. BRALEY. Just over that. Yes, sir, approximately one-third.

Senator BOSCHWITZ. Well, maybe somebody along the line can tell us why the wholesalers do not apply a little more pressure on the manufacturers? If that kind of rebate is available, it would seem to me that the wholesalers would go after it. I notice in 1986, it is about 20 percent, and our States up our way are a little bit more efficient than Tennessee or some of the other States.

Maybe there is a reason for that as well that can be explained by some of the other witnesses.

Senator HARKIN. Is that in here?

Senator BOSCHWITZ. Yes.

Mr. BODE. It is attached to my prepared statement.

Senator HARKIN. I will look at it.

Mr. BODE. I think in those 1986 numbers we have focused on Tennessee a good bit. I believe the director from Tennessee will be here to testify later. Tennessee has made some improvement in 1986 over where they were in 1985, and they are not alone. Other States can make some significant improvements, too, and we want to work with them to help them get that down.

Senator **Boschwitz**. Why is there such a wide variety of average costs from State to State? There does not seem to be any——

Mr. **Bode**. There is great flexibility at the State level in determining food package content as well as administrative procedures that are undertaken.

Senator **Boschwitz**. You see, Mr. Chairman, if you look at this that——

Senator **Harkin**. I am looking, but where is that? Which one do you want me to look at? I am looking at all of them.

Senator **Boschwitz**. Oh, let us start at the top, Connecticut or Maine, you see the food packages vary so much in cost. In Maine it is $28. In New York it is $38. And perhaps, Mr. Bode, you can explain that. These States have the ability to make up their own food packages; is that correct?

Mr. **Bode**. Within guidelines. Senator, our present formula for allocation of administrative funding allows for some perverse incentives, if you will, in that we tend to give more administrative funding to those States with higher food package costs.

What we are interested in doing, and have been pleased to have the cooperation of the WIC State directors is allocating administrative money on a basis that better reflects participation. So that there is another incentive for getting the most use and the most people served for each taxpayer dollar.

Senator **Harkin**. You are saying rather than basing it on the dollar expended for food, right?

Mr. **Bode**. Yes.

Senator **Harkin**. You are basing it on——

Mr. **Bode**. We are, of course, simplifying a good deal here in talking about these formulas, but yes.

Senator **Harkin**. Is that based on participation?

Mr. **Bode**. Yes.

Senator **Harkin**. Based on participation, rather than just on food costs, the food dollar that goes out, right?

Senator **Boschwitz**. If you will look at the figures, Mr. Chairman, you will notice down from 1986 that the total cost of the average food cost was $31.82, and the administrative cost was $7.96. So, in a way, the administrative cost is 25, the administrative cost is 25 percent of the food, not 20. If you would add the administrative cost in and then take administrative costs as percentage of total cost, then they are 20 percent, but 25 percent of the food costs. So it is not cheap.

Senator **Harkin**. That is not 25 percent, is it?

Senator **Boschwitz**. $7.96 of $31.82. $8 would be 25 percent of $32.

Senator **Harkin**. I see. $40 is the formula. I see what you are saying, Senator.

Senator **Boschwitz**. $40 is the total. Well, maybe some of the folks who are going to testify later on could comment on that, too. I have nothing further.

Senator HARKIN. Thank you. Take a look at a State like Maryland. Maryland has $28.20 in food costs while Iowa has $27.61. So, there is only a slight difference. But the difference is almost over $2 in the administrative costs, between $6.65 to $8.67. I am wondering why there is such a difference in that. For example, let's compare Illinois and Indiana. Illinois spends $27.47 on food and $6.96 on administrative costs. In Indiana they have less food costs, $27.38, but higher administrative costs, $7.32.

Have you done anything to find out what——

Mr. BODE. Yes, sir. We have done things informally, also in a more formal approach to get answers to this that will be widely acknowledged. We were undertaking a study that I referred to in my testimony to better identify administrative costs and procedures used by the States.

Senator HARKIN. This is what I do not understand. Here is Iowa and here is Minnesota. Iowa's food cost is more than a dollar cheaper than Minnesota's food cost. Iowa is $27.61 compared to $28.80 for Minnesota, and Minnesota's administrative costs are $8.10.

Senator BOSCHWITZ. You guys are always bragging. [Laughter.]

Senator HARKIN. I imagine the $8.10 in administrative costs in Minnesota must be due to the unusually harsh and severe winters. [Laughter.]

After all, costs would be higher when you require people to go out by a dog sled and things like this.

The amazing thing, if you look at the South, is the food costs. They vary from $23 in Mississippi to $35 in Kentucky.

Mr. BODE. Mississippi does have a unique system.

Mr. BRALEY. Mississippi has a direct purchase and distribution system.

Senator BOSCHWITZ. They have that other program with——

Mr. BRALEY. Well, no, it is actually part of the WIC Program, but they go out and buy their foods on a competitive basis, the entire package of foods, warehouse them and distribute them to WIC participants. It is unique in that regard.

Senator HARKIN. It is like the old commodity program.

Mr. BRALEY. It is similar to that except it serves this particular clientele, women, infants and children exclusively.

Senator HARKIN. It serves them with what, the formula?

Mr. BODE. With the food package, yes. Formula for infants. There are the juices and dairy products.

Senator BOSCHWITZ. Do they have warehouses or something in which they distribute the commodities? Is that it?

Mr. BRALEY. Yes, Senator, they do use the warehousing system.

Senator BOSCHWITZ. How many warehouses do they have?

Mr. BRALEY. I will check with staff. I do not know that offhand.

[The information was subsequently received for the record.]

The State of Mississippi operates 90 warehouses in its warehouse-distribution WIC system.

Senator HARKIN. They have to have some refrigeration.

Mr. BODE. Senator, we are told at least 20 warehouses. We would be happy to provide you a fuller statement describing the Mississippi program operations.

Senator **Boschwitz**. And the $23.04 and the $7.38, that includes all of their overhead for running these warehouses and so forth?

Mr. **Bode**. Yes, sir.

Senator **Boschwitz**. Why do you not let him answer it?

Mr. **Braley**. This is Pat Clerkin who is the Director of the Supplemental Foods Program Division of which WIC is one.

Mr. **Clerkin**. In Mississippi, the cost of covering the warehouses is coming from the administrative grant to the State. Recently through law change, that became an allowable food cost, but the costs currently are covered out of their administrative grant.

Senator **Boschwitz**. So that the $23 and the $7.38 covers the whole cost of the food and the distribution and the warehousing and so forth?

Mr. **Clerkin**. Right. Plus all the certification costs and the nutrition education costs for participants and so forth.

Senator **Boschwitz**. That is impressive.

Senator **Harkin**. Are you talking about Mississippi?

Senator **Boschwitz**. Yes.

Senator **Harkin**. But I understand their administrative costs are much higher than 20 percent. Is that true?

Mr. **Clerkin**. Their administrative costs including the warehousing and distribution costs, which in a retail food delivery system would part of food costs, and there was a recent law change which now permits those costs to be counted as food costs. Now the State may not have an adequate food grant to do that, and they continue to use administrative funds to cover those warehousing and distribution costs which, as I said, in a retail food delivery system when you are paying the food costs at the store all those warehousing and other costs that the retailer is incurring are all in that shelf price.

Senator **Harkin**. Anyway you look at it, though, if you look at the bottom line figures, the total cost, $30.42, is about as low as I have seen anywhere. Perhaps Mississippi is on to something.

Senator **Boschwitz**. Looks that way. Even lower than Iowa.

Senator **Harkin**. It is lower than in Iowa. I am curious about this now—this is very interesting. There was an exception made in the law, as I understand in, in H.R. 7, that allowed Mississippi to spend more than 20 percent for administrative costs.

Mr. **Clerkin**. No, there is no exception that allows nationally the expenditures to be beyond 20 percent. That is a national limit of 20 percent to be expended on administration of the program. State by State it can vary, and it does vary. As you go down these charts, many of the States exceed 20 percent.

Mr. **Bode**. Particularly some of the Indian organizations, tribal organizations that are functioning as a state.

Senator **Harkin**. Yes, I see that.

Mr. **Bode**. And because of their size.

Senator **Harkin**. I see that. But what was the exception made in the law that you mentioned? You said there was an exception.

Mr. **Clerkin**. Well, traditionally the warehousing costs in Mississippi had been restricted to being paid for with administrative funds, and the law change now permits the State of Mississippi to use part of their food grant to cover warehousing costs.

Senator **Harkin**. Are they serving more than 40 percent of their eligible population or less?

Mr. **Bode**. They have one of the deepest levels of penetration of the eligible population in the country, as I recall.

Senator **Harkin**. Do you have any idea how much more?

Mr. **Clerkin**. I think it would be in the almost 60 percent of income eligibles, I believe. So I think it would be——

Senator **Harkin**. I think we are going to have to take a closer look at this. This is interesting. If they can get 60 percent of penetration for a total cost——

Mr. **Bode**. This is the income eligible. So that is the most generous possible eligible. So it is a deep level of penetration.

Senator **Harkin**. It sure is. If Mississippi is able to do that for $30.42 per person total, then maybe there is something there. I would like to have any of the witnesses who are about to come, to testify about this, if they like, because I would like to take a look at this.

Mr. **Bode**. One thing I am sure you will hear, Senator, is that there is a significant convenience factor present, whether the WIC recipients can go to their corner grocery store. There are many grocery stores authorized to accept WIC vouchers or whether they go to a central point and receive the package of foods.

Senator **Harkin**. I understand that. I have to move along to other witnesses. This has been very interesting. Do you have anything else?

Senator **Boschwitz**. Pardon me, Mr. Chairman, I am done.

Senator **Harkin**. Thank you. Thank you very much, Mr. Secretary. I appreciate it very much.

Mr. **Bode**. Yes, sir.

[The opinion of the Office of General Counsel, U.S. Department of Agriculture follows:]

WIC

United States Department of Agriculture
Office of General Counsel
Washington, D.C. 20250

June 3, 1987

Our Reference
FVC:RWH:BLL
4-SNP-5b

TO: George Braley, Deputy Administrator
Special Nutrition Programs
Food and Nutrition Service

FROM: Ronald W. Hall
Acting Assistant General Counsel
Food and Nutrition Division

SUBJECT: Procurement of Infant Formula Rebates for the Special Supplemental Food Program for Women, Infants and Children (WIC)

This is in response to your memorandum of May 11, 1987, concerning the above-captioned subject. In March and April of 1985, we considered the issue of a proposed system of rebates in the WIC Program. Your memorandum to us of March 27, 1985, requested, among other issues, our opinion as to whether rebated amounts paid to a state agency by a wholesale formula manufacturer for infant formula purchases lose their character as WIC program funds. In our April 22, 1985 opinion to you, we observed that refunded amounts do not lose their character as program funds. We did not extensively consider the precise characterization of those funds or how they should be treated for grant accounting purposes.

You have now asked that we do so. We believe that the refunds generated by a system such as that proposed to be implemented in the state of Tennessee are most properly considered as "applicable credits" for grant accounting purposes. The system in Tennessee, as we understand it, provides that Wyeth Laboratories will rebate to the State of Tennessee $.40 per can of infant formula purchased by participants in the WIC Program. These rebates will be paid upon submission by the State of Tennessee to Wyeth of documentation indicating the amounts of purchases that have been made.

OMB Circular A-87, Attachment A sets forth principles for determining costs applicable to federal grants and contracts with State, local and federally recognized Indian tribal governments. The circular states that to be allowable under a grant program, costs must meet the following criteria: "[b]e necessary and reasonable for proper and efficient administration of the grant programs . . . (and) [b]e net of all applicable credits." OMB Circular A-87, paragraph C.1. Applicable credits are defined by the circular to be "those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are purchase discounts; rebates or allowances, recoveries or indemnities on losses; . . . ." OMB Circular A-87, paragraph C.3.a.

Because the language of the circular quoted above specifically identifies rebates as a type of applicable credit, it appears to us that rebates should be considered as applicable credits which reduce the costs of acquiring infant formula for Tennessee's WIC Program. Therefore, when reporting the costs incurred under the grant, the State of Tennessee would report the "cost" of formula as the retail price paid to vendors minus the rebated amount.

With this approach, the issue of the character of the rebates is clear. The rebated amounts do not lose their designated character as funds provided for the purchase of food. Under the rebate system, a greater amount of infant formula can be purchased with that portion of Tennessee's WIC grant which is allocated for food purchases because the cost of the formula has been effectively reduced.

Senator HARKIN. Next, we will call on Mr. Arthur Simon, executive director of Bread for the World. Mr. Simon, welcome, again, to the subcommittee. We are all well aware of the fine work that Bread for the World does, not only here, but all around the world. We are also well aware of all of the efforts you have put in for so many years to make Bread for the World the efficient, fine, compassionate organization that it is. We welcome you to the subcommittee. Your prepared statement will be made a part of the record. If you would care to summarize it, that would be fine.

STATEMENT OF ARTHUR SIMON, EXECUTIVE DIRECTOR, BREAD FOR THE WORLD, WASHINGTON, DC, ACCOMPANIED BY BARBARA HOWELL, POLICY ANALYST, BREAD FOR THE WORLD

Mr. SIMON. Thank you very much, Senator Harkin. I appreciate that. One of the reasons Bread for the World has worked effectively is because of a fine staff, and I have with me Barbara Howell, policy analyst, who heads up our domestic hunger policy team.

I would like to simply submit my prepared statement for the record and make some oral comments, and in doing that, perhaps respond a bit to some of the statistics that we heard from the previous witness, Mr. Bode.

You will not be surprised to learn that Bread for the World is, indeed supportive of substantial increases in funding for the WIC Program so that it can be expanded not only for fiscal year 1988, but in subsequent years as well. We have played an active role in pushing support for Senate Joint Resolution 99, which, as you know, calls for an additional $150 million for the next fiscal year and comparable increases for the next several years.

Our ultimate hope and goal is that in the long run all those who are eligible for the program and who desire to be on it should, in fact, be part of that program for the simple reason that it is by all reports one of the most critically important and effective programs in terms of reaching those who are truly in need. And as you know, those who are targeted by the program are certified by a physician to be in nutritional need and are in a very low income category.

I was intrigued by Mr. Bode's figures. They are new ones to me, and I think they will be coming out in that report from the USDA. One could look at it, as Mr. Bode does, as demonstrating how many people are being served by the program and be grateful for that and conclude that the program is basically reaching enough people.

I think you could look at the same figures from the opposite side and draw quite a different conclusion because they mean that one-third of the pregnant women who are below the poverty line and who are certified by a physician to be in need are not benefiting from that program.

Now that to me is a moral outrage. At least 10 percent of the infants below the poverty line certified to be nutritionally deficient are not being reached by that program, and that is a shame.

It means that many more children beyond infancy who qualify for the program—we did not hear a figure on that, but the figure is obviously much higher—are not being reached by that program. And if you move to the low income people who are above the poverty line but still in incredibly low income bracket who are not being reached by the program, you have lots of people who are in dire need, and whom this program could be of very great help to.

Senator **Harkin**. Which just reminded me, if I might interrupt, Mr. Simon, it reminded me of when Franklin Roosevelt became President. He gave that famous speech where he said, "I see a nation one-third ill-housed, one-third ill-fed, one-third unemployed." He could have said, "I see a nation two-thirds employed."

Mr. **Simon**. Absolutely.

Senator **Harkin**. "Two-thirds housed, two-thirds well fed." You see?

Mr. **Simon**. Exactly. Exactly.

Senator **Harkin**. That's interesting. Thank you. Continue, please.

Mr. **Simon**. And both figures are part of the reality. We have to acknowledge that.

Senator **Boschwitz**. I am sorry to miss those figures. I just wanted to get the administration. They should not get up and leave and not listen to the other side of the testimony. So I asked them to come back in.

Senator **Harkin**. I did, too.

Senator **Boschwitz**. Did you?

Senator **Harkin**. I sent staff out. What happened?

Senator **Boschwitz**. Yes. I did. They will be back. Would you just summarize for me?

Mr. **Simon**. Well, what I heard was that two-thirds of the pregnant women who are eligible for the program are being served, pregnant women below the poverty line.

Senator **Boschwitz**. Right.

Mr. **Simon**. That means that one-third of those eligible pregnant women below the poverty line are not being served.

Senator **Boschwitz**. Yes, right.

Mr. **Simon**. So, 90 percent of the infants below the poverty line eligible are being served. That means 10 percent are not being served.

Senator **Boschwitz**. Yes.

Mr. **Simon**. No mention was made, at least orally, of the children who qualify for the program below the poverty line, but who are not infants. I presume that percentage must be considerably higher.

Senator **Boschwitz**. They said infants.

Mr. **Simon**. Yes, infants was, at least, what I heard.

Senator **Boschwitz**. And it goes up to what age? Four, five?

Mr. **Simon**. Well, infants would only be the first year of life, but beyond that, kids up to the age of five are eligible.

Senator **Boschwitz**. Right. Do you not have all those figures?

Mr. **Simon**. I would add to all this that we are all for reducing the cost, getting food at a better price and doing what we can to use that to reach more people, but the fact is that even as the program now stands, it is one of the most cost effective programs around. I think that reports have shown this. If I were a legislator with a heart of stone I think I would be for this program, for expanding it, simply because the evidence shows it saves money in future health care costs.

Let me say also that there is enormous support for the program. I do not think it is any surprise that the program has reached more people over the years, while many other programs have been cut back, simply because it has been so effective. But I have here a stack of editorials and articles from more than 100 papers around the country, newspapers supporting and reporting on this program.

I think that has been submitted, at least, to some staff people for examination. I have here also and would like to submit for the record a list of 41 organizations—the number is growing—41 organizations endorsing Senate Resolution 99, WIC Food for Life, and its House counterpart. They include such groups as the American Academy of Pediatrics, the American Public Health Association, National Farmer's Union, and the U.S. Conference of Mayors.

Senator HARKIN. Without objection, we will make that a part of the record also.

Mr. SIMON. I also have here a list of 221 Members of Congress, and that includes close to one-half of the Members of the U.S. Senate who are cosponsors of Senate Joint Resolution 99, and again, that list is growing daily. Churches around the country, people in every congressional district have been writing to Members of Congress in support of increased funding for WIC.

I would like to put in a little plug, too, because my prepared statement did not include this, for greater outreach. I have been in several States recently and talked to WIC directors and WIC recipients. In some cases, in fact I think in most cases, the outreach aspect of the program was either very minimal or nonexistent, simply because they have a waiting list, and there is no point doing outreach when all you do is put people on that waiting list.

So, there needs to be, along with increased funding, an increase also in the outreach efforts. I am very hopeful. We are getting some positive responses as far as budget room for the increases in WIC next year although that has not been finalized yet by the House-Senate conference. We are hoping for the full amount, but we also need support at the appropriation stage. That is going to be the critical fight, and I think the Senators on this subcommittee can be of great help to us in that regard.

May I conclude my remarks by offering a very undramatic example of one child who benefited from the WIC Program. His name is Richard, and he lives in the State of Maryland. He is an 8-year-old boy. Shortly after birth, he was found to be in nutritional need, anemic and deficient in other respects. He went on the WIC Program and was on the program for a year. I am happy to say that Richard is a healthy, bright, active 8-year-old who is just finishing the third grade. The program not only helped Richard. It helped his mother, too, who at the time was marginally employed. It gave her a lot of encouragement, helped her get on her feet and move forward. I mention Richard not because there is anything special about his case except that Richard is now my adopted son, and his mother is my wife. So I have a personal reason for feeling very grateful for what I know is an extraordinary benefit to people who are critically in need.

Senator HARKIN. Thank you very much, Mr. Simon.

[The prepared statement of Mr. Simon, with attachments, follow:]

bread for the world
a christian citizens' movement in the usa

TESTIMONY OF BREAD FOR THE WORLD

Before the Senate Subcommittee on Nutrition and Investigations

Committee on Agriculture, Nutrition, and Forestry

June 11, 1987

Mr. Chairman, I am Arthur Simon, Executive Director of Bread for the World. Thank you for giving us the opportunity to testify today on the Special Supplemental Food Program for Women, Infants and Children, known as "WIC." I am sure that under your leadership this subcommittee will do its utmost to assure that low-income people in the United States will be able to have a nutritionally adequate diet.

This year Bread for the World, the national Christian citizens' lobby on hunger, has undertaken a campaign to build support for expanding the critically important and successful WIC program. This campaign has sparked unusually widespread support among church members, nutrition and health organizations, and other child advocacy and anti-hunger groups. Hundreds of churches have held "offerings of letters" to their senators and representative supporting WIC increases.

I have put together a packet of more than 100 articles and editorials from around the country written in the last month to show you the extent of public interest in this campaign. I would also like to include in my testimony the list of 41 organizations endorsing the "WIC Food for Life" joint resolution (S. J. Res. 99 and H. J. Res. 192) and the names of 217 Members of Congress cosponsoring the measure.

This joint resolution is the focus of our letter-writing campaign. It calls for a multi-year increase in WIC appropriations for each of the next four years so that WIC can serve about five percent more women, infants, and children each year. We also expect it to indicate strong support for eventually making the program available to all low-income pregnant and breastfeeding women, babies and children under five years old whose inadequate diets have put them at nutritional risk. For fiscal year 1988 S. J. Res. 99 states that WIC should receive funding to serve an additional 300,000 eligible women, infants, and children, costing an additional $150 million above current services. We know this is a difficult year to be asking for additional

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funding for government programs, but WIC is different. Its proven ability to prevent costly health problems can actually save government spending in the long run.

Bread for the World chose to target WIC for our "offering of letters" because we are convinced it is a much-needed and successful program, and because it is a tragedy that, despite its proven ability to reduce infant deaths and disabilities, and to improve nutrition, WIC as currently funded can serve fewer than half of the eligible women, infants, and children. WIC is especially important since children are more likely than any other age group to be poor, with one out of four young children living in poverty.

WIC provides nutritious food and nutrition counselling to pregnant women, infants and young children, who are the most vulnerable to the severe, long-lasting and costly consequences of hunger and malnutrition. Not attending to the nutrition and health needs of these women, infants and children today will mean that society will bear the cost of intensive care for low-weight newborns, the mentally retarded and with other disabling problems tomorrow. In other words, we can pay a little now or pay much more later. According to the American Academy of Pediatrics, in 1985 newborn intensive care cost $2.4 to $3.3 billion, an average of $14,698 for each baby. The total cost of WIC benefits for a pregnant woman averages under $250.

WIC has repeatedly been proven to have a major impact in reducing the incidence of low-weight births, the leading cause of infant mortality and a major risk factor in mental retardation, birth defects and learning difficulties. Non-white infants are twice as likely as white babies to die in the first year of life. Black babies are born with low weight twice as often as white babies. Black and Hispanic origin women, as well as other high risk groups such as teenage and unmarried pregnant women, have shown the most dramatic improvements as a result of participation in WIC.

The National WIC Evaluation also showed that WIC reduces anemia among women, infants and children and improves the likelihood that children will have a regular source of medical care and be better immunized. There are indications that WIC improves the cognitive development of infants and children. Think of what this could mean to the productivity of our future workforce.

Dr. J. Larry Brown of the Harvard School of Public Health described the importance of adequate nutrition during the early, formative years in a February, 1987, Scientific American:

> The hazards facing the frail newborn increase its risk of dying in infancy. Even when complex and costly technology is brought to bear, a low-birth-weight baby faces 40 times the normal likelihood of dying before it reaches its first birthday. Low birth weight is a factor in more than half of the infant deaths in the U.S. and in 75 percent of the deaths of babies less than one month

old.

The potential hazards of malnutrition for a pregnant woman and her fetus can be overcome by nutritional supplements supplied to the mother during her pregnancy. When food was tightly rationed during World War II, the United Kingdom made sure that pregnant women got adequate diets, and infant mortality actually declined. In places such as Leningrad and the Netherlands, where pregnant women did not get special supplementary rations, birth weights declined and infant mortality increased.

More recent studies demonstrate the positive impact of nutritional supplementation for pregnant women. The studies examined the effect of the Special Supplemental Food Program for Women, Infants and Children (WIC), which was established by the Government in 1972. Eight such studies were made between 1976 and 1986, and all reached the conclusion that the program had resulted in better maternal health and better outcomes of pregnancy. Among the findings were a decrease of more than 20 percent in low-birth-weight babies, a reduction in late fetal deaths, fewer premature infants and fewer infant deaths.

Whatever the circumstances of an infant's gestation and birth, the child once born is at considerable risk if adequate nutrition is lacking. The human brain develops most rapidly from conception until about the age of three. During those years brain function can be impaired by nutritional deprivation. Other risks are stunting (defined as height below the fifth percentile for a given sex and age) and wasting (weight below the fifth percentile for age and height). In addition malnourished children are particularly vulnerable to lead and other environmental toxins, which can affect the brain and compound the direct effects of malnutrition on the child's intellectual development....

Recent research indicates that functional impairment may result from poor childhood nutrition even in the absence of overt physical harm. The studies suggest that before easily measured changes in growth appear and before any nutrition-related

> disease is evident, a child's body may adapt to inadequate food by reduced metabolism. The implication is that the child may show no overt signs of impairment and yet be deprived of social and cognitive experiences that advance development.

Bread for the World hopes that support for the "WIC Food for Life" joint resolution will encourage Members of Congress to increase funding for the WIC program. Bread for the World members in the states and districts of members of the Senate and House Appropriations Committees are working especially hard now to get the message to their legislators that WIC should receive a $150 million increase above current services for fiscal year 1988. We believe this is a responsible first step toward making WIC's life-saving benefits more fully available to those who need them. We will also work for a steady increase in the WIC caseload over the next few years. This seems to us to be both an administratively sound and fiscally possible approach to reaching the other half of the women, infants, and children now denied WIC benefits. I hope that members of this subcommittee will also lend your support to this effort.

Each child is precious in the sight of God. Each child is also a precious resource for our nation that we cannot afford to waste. Assuring a nutritionally healthy start in life is the least we can do for children in poor families. Adequate diets will not compensate for the great differences in access to opportunity between those who have and those who do not, but a fully funded WIC program can give poor children a healthy start.

ORGANIZATIONS ENDORSING S. J. RES. 99, "WIC FOOD FOR LIFE"

AMERICAN ACADEMY OF PEDIATRICS
AMERICAN HOME ECONOMICS ASSOCIATION
AMERICAN NURSES ASSOCIATION
AMERICAN PUBLIC HEALTH ASSOCIATION
BREAD FOR THE WORLD
CATHOLIC CHARITIES
CALIFORNIA URBAN INDIAN HEALTH COUNCIL
CENTER ON BUDGET AND POLICY PRIORITIES
CHILDREN'S DEFENSE FUND
CHILD WELFARE LEAGUE OF AMERICA
CONSUMER FEDERATION OF AMERICA
CONSUMER'S UNION OF THE UNITED STATES, INC.
CHURCH WOMEN UNITED
FOOD RESEARCH AND ACTION CENTER
FRIENDS COMMITTEE ON NATIONAL LEGISLATION
GRAY PANTHERS
INTERFAITH ACTION FOR ECONOMIC JUSTICE
INTERNATIONAL ASSOCIATION OF PSYCHO-SOCIAL REHABILITATION SERVICES
JESUIT SOCIAL MINISTRIES, NATIONAL OFFICE
MARCH OF DIMES
NATIONAL ASSOCIATION OF COMMUNITY HEALTH CENTERS
NATIONAL ASSOCIATION OF WIC DIRECTORS
NATIONAL COUNCIL OF JEWISH WOMEN
NATIONAL FARMER'S UNION
NATIONAL OFFICE ON HAITI
NATIONAL PERINATAL ASSOCIATION
NETWORK
MARYKNOLL OFFICE ON JUSTICE AND PEACE
MENNONITE CENTRAL COMMITTEE
PRESBYTERIAN CHURCH, U.S.A.
PUBLIC VOICE FOR FOOD AND HEALTH POLICY
SOCIETY FOR NUTRITION EDUCATION
UNITED CHURCH OF CHRIST OFFICE FOR CHURCH IN SOCIETY
UNITED FOOD AND COMMERCIAL WORKERS
UNITED STATES CONFERENCE OF LOCAL HEALTH OFFICERS
UNITED STATES CONFERENCE OF MAYORS
UNITARIAN UNIVERSALIST ASSOCIATION OF CHURCHES IN NORTH AMERICA
WASHINGTON OFFICE OF THE EPISCOPAL CHURCH
WIC ASSOCIATION OF NEW YORK STATE, INC.
WORLD HUNGER YEAR
UNITED METHODIST GENERAL BOARD OF CHURCH AND SOCIETY

The 179 cosponsors of H. J. Res. 192 and the 42 cosponsors of S. J. RES. 99 as of June 10, 1987. (Senators are underlined).

ALABAMA
Callahan
Erdreich

ALASKA
Murkowski

ARIZONA
DeConcini
McCain
Rhodes
Udall

ARKANSAS
Bumpers
Pryor
Hammerschmidt

CALIFORNIA
Cranston
Anderson
Bates
Berman
Boxer
Brown
Dellums
Dixon
Edwards
Fazio
Hawkins
Lantos
Lehman
Levine
Martinez
Matsui
Miller
Mineta
Panetta
Roybal
Stark
Waxman

COLORADO
Wirth
Campbell
Schroeder
Skaggs

CONNECTICUT
Dodd
Weicker
Gejdenson
Johnson
Kennelly
Morrison
Rowland

DELAWARE

D.C.
Fauntroy

FLORIDA
Graham
Grant
Hutton
MacKay
Smith

GEORGIA
Fowler
Nunn
Lewis

HAWAII
Inouye
Matsunaga
Akaka
Saiki
IDAHO

ILLINOIS
Simon
Bruce
Collins
Durbin
Evans
Gray
Hayes
Lipinski
Price
Russo
Yates

INDIANA
Hamilton
Jontz
McCloskey

IOWA
Harkin
Nagle
Tauke

KANSAS
Glickman
Slattery

KENTUCKY
Ford
Perkins

LOUISIANA
Johnston
Boggs

MAINE
Brennan

MARYLAND
Mikulski
Sarbanes
Cardin
Hoyer
Mfume
McMillen
Morella

MASSACHUSETTS
Kennedy
Kerry
Atkins
Boland
Conte
Donnelly
Frank
Markey
Mavroules
Moakley
Studds

MICHIGAN
Levin
Riegle
Bonior
Conyers
Crockett
Davis
Ford
Henry
Kildee
Levin
Traxler
Wolpe

MINNESOTA
Oberstar
Penny
Sabo
Sikorski
Vento

MISSISSIPPI
Espy
Dowdy

MISSOURI
Clay

MONTANA
Melcher

NEBRASKA

NEVADA
Reid

NEW HAMPSHIRE

NEW JERSEY
Bradley
Dwyer
Guarini
Howard
Hughes
Roe
Smith
Torricelli

NEW MEXICO
Richardson

NEW YORK
D'Amato
Moynihan
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Downey
Fish
Garcia
Gilman
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Manton
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Mrazek
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Owens
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Schumer
Scheuer
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NORTH CAROLINA
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NORTH DAKOTA
Conrad
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Metzenbaum
Applegate
Feighan
Hall
Kaptur
Oakar
Sawyer
Stokes
Traficant

OKLAHOMA
Synar

OREGON
DeFazio

PENNSYLVANIA
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Borski
Coyne
Foglietta
Gray
Kolter
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RHODE ISLAND
Chafee
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St Germain

S. CAROLINA
Hollings
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Patterson

SOUTH DAKOTA
Daschle
Johnson

TENNESSEE
Gore
Sasser
Ford
Gordon
Jones

TEXAS
Bentsen
Andrews
Leland
Wilson

UTAH
Owens

VERMONT
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Stafford
Jeffords

VIRGINIA
Boucher
Olin
Pickett

WASHINGTON
Adams
Bonker
Dicks
Lowry
Morrison

W. VIRGINIA
Mollohan
Rahall
Staggers
Wise

WISCONSIN
Aspin
Kastenmeier
Moody

WYOMING

PUERTO RICO
Fuster

VIRGIN ISLANDS
de Lugo

Senator HARKIN. You looked at the President's budget on this. It basically maintains the same level, but with increases in inflation, it means somewhat of a cut in the total spending in the WIC Program.

If I heard right, I think Mr. Bode said they were in favor of reaching more than the 40 percent they are reaching now. I think that is very important. And, also, I think it is important to try to cut costs across the board.

I want to explore with you one aspect of the program. Right now the administrative costs are sort of based on the food. They depend on how much money goes out for the food. I am wondering about the incentives for people to increase participation. There probably should not be a shift in the formula that makes the administrative cost based upon participants. Do you see what I mean?

You may recall, I used to head the Infant Formula Action Committee. I was trying to get women to do more breastfeeding. I am a strong proponent of breastfeeding here and anywhere else. I am concerned that in the WIC Program there perhaps would not be an incentive for the State WIC people to encourage mothers and potential mothers to engage in breastfeeding, since it does not really save them anything.

And I am wondering if we should change that formula a little bit. I wondered about any thoughts you may have had on encouraging participants to breastfeed. It means they would buy less formula, but I think the kids would be healthier.

Mr. SIMON. Absolutely. I think changes are needed to do that. I will let Barbara comment further on this, but one of the States I visited recently was Ohio. I was in the Dayton area. And if I got it straight and they got it straight, Ohio is one of the States—I did not see that chart—but one of the States that has done a better job of finding ways of reducing the cost of food. At least I was told that one of the consequences is they could reach more people if they had more money for administration.

But they are up to their ears in what they can handle, and cannot bring anybody else on. So I think it does make sense to modify the way of getting at that.

Senator HARKIN. So, if a State recommends breastfeeding, that cuts down the total amount of formula. It cuts down on the administrative amount they get, too.

Mr. SIMON. That is right. So it almost penalizes them for doing a good job. And what I heard from the State of Mississippi suggests, too, that they may not be able to—even though they have done a great job with food costs, there may be a limit to what they can do with that because there are administrative limits. And it seems to me that that needs to be looked at.

Senator HARKIN. I want to take a look at Mississippi, too. Mississippi reports an interesting price. I used to be involved, a long time ago, in the old commodity distribution program in Iowa. Actually it was not me, it was my wife. But, I also used to participate in it. Once in awhile, we actually took commodities. People would come down and get commodities; sometimes you would deliver them if they were homebound. I, quite frankly, thought it was a pretty good program, but then we moved away from it.

Senator BOSCHWITZ. What does Ohio do that keeps its costs so low? It is my understanding that the USDA is looking at making the administrative costs or seeking to put the administrative costs on a per person rather than a percentage basis, which perhaps would not penalize you for being more efficient in distributing the goods.

Mr. SIMON. My hunch is that makes sense. But I am not an expert, and I think you will hear from some experts on that later.

Senator BOSCHWITZ. We will get to the experts.

Senator HARKIN. Do you have questions, Senator Boschwitz?

Senator BOSCHWITZ. No. I am pleased to see Mr. Simon here. If you close your eyes, he certainly sounds like his brother, but other than that better looking.

Mr. SIMON. Paul denies it.

Senator BOSCHWITZ. And I first became familiar with Bread for the World when I was running my business. At the end of the year I would make a charitable contribution to every charity that was chosen by my employees, each one, so I got involved in just hundreds of them. And one fellow by the name of Greg Myer chose Bread for the World. I think I have participated since that time.

Mr. SIMON. Shows excellent judgment, Senator.

Senator BOSCHWITZ. It was his judgment initially, and I was not familiar with it prior to that. It must be 12, 15 years ago.

Mr. SIMON. Thank you, and I must say I really appreciate your attitudes on WIC, both of you, and look forward to working more with the subcommittee.

Senator BOSCHWITZ. You know I am not on that resolution that you pointed out. One of the reasons that I am not is the authorization language that we passed, and I think even in the supplemental appropriations bill, you know such moneys as are needed. It was a very general tone so it is not entirely clear to me why a sense of the Senate resolution is now needed, or how it varies from legislation that has already been adopted.

Mr. SIMON. Well, it will send a message to the people who deal with appropriations, for one thing. We would love to see your name on that. Thanks.

Senator HARKIN. Thank you very much, Mr. Simon.

Next we have a panel of State WIC directors. The panel includes: Dennis Bach, Iowa State WIC Director; J. Terry Williams, president of the National Association of WIC Directors; Dick Blount, Missouri State WIC Director; Manny Martins, Assistant Commissioner, Tennessee Department of Health and Environment; and Betsy Clarke, Oregon WIC Director.

After that panel, we will hear from Bob Greenstein and Stefan Harvey, Center on Budget and Policy Priorities. You may all come up here and take a seat.

We welcome all of you to the subcommittee. Your statements will be made a part of the record, in their entirety. In the interest of time, we will go in the order in which I called. The order is: Dennis Bach, Terry Williams, Dick Blount, Manny Martins and Betsy Clarke. Could you each take about less than 5 minutes to highlight your programs?

We have already talked about a couple of your different programs. If you are doing something unique or if you want to respond to what Mr. Bode had talked about, that is what I would like to hear. So let's start and move down the line.

STATEMENT OF DENNIS H. BACH, DIRECTOR, IOWA WIC PROGRAM, IOWA DEPARTMENT OF PUBLIC HEALTH, DES MOINES, IA

Mr. BACH. Thank you, Senator. I am Dennis Bach. I am the Director of the WIC Program in Iowa, and I appreciate the opportunity to come in and share a couple moments of your time. In my prepared statement, I talk about the growth of the program, which has been supported by appropriations from Congress. I think one of the reasons why you recognize the program's effectiveness is because of the numerous evaluations that have been done of the program.

When the GAO released its report a couple of years ago, they had reviewed 61 different evaluation studies. I believe Dick is going to talk about a couple of those, and Stefan later is going to talk about the national WIC evaluation. The one point that I would like to make about different evaluation studies is that I am not aware of any of them that have been able to isolate the effects of the individual components of the WIC Program.

WIC is composed of supplemental foods and nutrition education and health services. And it appears to be the combination of those three that makes it so effective. There appears to be sort of a synergistic effect that makes the whole greater than the sum of the parts.

And I think, in looking at the legislative future of the program and the future appropriations, it is important to support all three components of the program, rather than just ensure that there is food available to serve additional people. Otherwise, I think we will diminish the effectiveness of the program.

There has been quite a bit of talk this morning about the eligible population. The figure that is usually used, of about 8.3 million, is based on the census data, and there is some indication that that figure is somewhat outdated and may be considerably understated.

Senator HARKIN. Wait a minute. That is interesting. Did you say the eligible population is based on the 1980 census?

Mr. BACH. That is the primary base for it.

Senator HARKIN. That is interesting.

Mr. BACH. In that census, they identified the children under 6 years of age who were living in families below poverty. At that time it was 17.9 percent of all the children in that age group. The census did an interim study in 1985, and that same age group had 23 percent of the children under poverty, over a one-fourth increase.

Senator HARKIN. Please wait just a second. In 1980, 17.9 percent of the total——

Mr. BACH. Children under age 6.

Senator HARKIN [continuing]. The total children under age 6 were below the poverty level.

Mr. BACH. Right.

Senator HARKIN. Now, what was the 23 percent figure denoting?

Mr. BACH. That was an interim study that the Bureau of the Census did in 1985.

Senator HARKIN. For the same group; below age 6?

Mr. BACH. Same group.

Senator HARKIN. Go ahead. I am sorry.

Mr. BACH. There are a few States that have attempted to take their own measure of their eligible population, and Minnesota is one of those that I am familiar with. They came up with an estimate of 164,000 people, which is considerably more than the 115,000 that USDA uses.

So, in USDA's information, Minnesota serves 49 percent of their eligible population, but according to the State WIC Program, they only serve 35 percent.

Senator HARKIN. I have to get this straight.

Senator BOSCHWITZ. He is going to kill us with all these figures.

Mr. BACH. That is not my intention.

Senator BOSCHWITZ. I am telling you these Iowa types are really fast with the numbers. [Laughter.]

Senator HARKIN. We got 115,000 that is for what?

Mr. BACH. What USDA uses.

Senator HARKIN. That is what the USDA uses. The 164,000 is for what?

Mr. BACH. What Minnesota's WIC Program uses.

Senator HARKIN. That is what they say is for the eligible population, right?

Mr. BACH. Eligible.

Senator HARKIN. That figure is based on the number actually eligible. That is below the 185 percent.

Senator BOSCHWITZ. That is the number of people?

Mr. BACH. Number of people.

Senator BOSCHWITZ. In the State?

Mr. BACH. The number of people in the State that would be income eligible for the WIC Program.

Senator BOSCHWITZ. That is 4 percent of the population of the State.

Mr. BACH. Could be.

Senator HARKIN. So USDA would say they are serving what percent?

Mr. BACH. About 49 percent.

Senator HARKIN. All right, 49 percent.

Mr. BACH. Which is a little above the national average.

Senator HARKIN. But actually they are serving only 35 percent.

Mr. BACH. If you ask them, yes.

Senator HARKIN. You mean if you ask the Minnesota WIC?

Mr. BACH. Right.

Senator HARKIN. That is interesting. Go ahead. I am sorry. These are good figures.

Mr. BACH. There was reference this morning to the study that USDA is working on which attempts to define the eligible population both in terms of income eligibility and nutrition risk. By using that more narrow definition, you would probably expect to come up with a smaller number. I have heard some speculation that figure will probably be between 7 and 8 million.

There may be someone here who knows the actual number if they have the study finished. Even using that narrower definition, the program is still serving less than half the eligible population.

The point that I think is significant, is that it is rather a specious approach to define eligibility in terms of income and nutritional risks. I guess my own feeling is that every woman living in poverty or every young child living in poverty is at nutrition risk regardless of whether they are showing clinical signs of undernutrition. If they do not have enough money to buy infant formula, I think the WIC Program should consider them part of their target population. That is my own personal opinion.

Senator HARKIN. You are saying under the poverty level, right?

Mr. BACH. Well, under the income guideline.

Senator HARKIN. In other words, under the 185 percent?

Mr. BACH. Right.

Senator HARKIN. You say they are at risk?

Mr. BACH. I would argue that they are. When you have an infant, for example, receiving upward of $40 worth of infant formula a month, 185 percent of the income level is still a modest amount of money to pay out per month to buy formula.

Senator BOSCHWITZ. I do not wish to argue. What is 185 percent of the poverty level, as a matter of interest for a family of four?

Mr. BACH. For a family of four, I believe it is around $20,000.

Senator BOSCHWITZ. I think it is $22,000. But nevertheless, I would——

Mr. BACH. I was looking at last year's figures.

Senator BOSCHWITZ. Fine. But certainly in rural Iowa, or rural Minnesota, one would not maintain that a family of four would be at nutritional risk if they have an income of $20,000; would you?

Mr. BACH. Well, in Iowa, we are one of a small handful of States that does not use the 185-percent. There was a decision made when the program was first started to use the lower level of 150 percent, and for a family of four that is just over $15,000. And I guess I would argue that for a family of four trying to survive and pay their bills on $15,000, they could definitely use the advantages of the WIC Program.

Senator BOSCHWITZ. Well, pardon me. I thought you were talking about 185 percent. All these things mystify me how they go from State to State, and I understand that they are also considering more of a national guideline as well, but at least it is a closer call at 150 percent. I certainly agree with that.

Go ahead. Anything else you want to finish up?

Mr. BACH. One last thing I would like to say about the program in Iowa specifically. Because we do use 150 percent rather than 185 percent, that is a sizable redefinition of the eligible population. There is a large segment of women, infants and children that we exclude. In spite of that we still have some priority categories not served and some waiting lists. I do not see any problem at all with effectively utilizing a greater appropriation.

In Iowa, we would be considered one of the fortunate States. Since we have a lower food package cost than most other States, we are able to serve a larger number.

Senator BOSCHWITZ. Why is that?

Mr. BACH. We have taken some steps over the years that have the effect of keeping our food package costs low. We have limits on, for example, the amount of cheese that they can substitute for milk. We only use a dozen eggs instead of two dozen out of concern for the cholesterol content. We make a point of avoiding things like ready to feed infant formula which is somewhat more expensive.

Senator BOSCHWITZ. What?

Mr. BACH. We avoid using ready-to-feed formula which is somewhat more expensive. But one of the single biggest differences is that because we use lower income guidelines, the demographics of our caseload are somewhat different than the national average. We have a smaller proportion of infants on the program and more children, proportionately, than most other States, and children's food package is much lower than an infant's food package. That pushes our overall package cost down.

Senator BOSCHWITZ. We ought to take a look at that someday, Mr. Chairman. Why Iowa is, why the costs are roughly $40 or $35 in some States, $27 or $28, $27.61 in Iowa, $29 in Minnesota, $24 in Ohio, even less in Mississippi. If we really wanted to get greater reach in this program, obviously when you get New York, and they are $38 for the food, and you get Iowa which is——

Senator HARKIN. $27 is the figure.

Senator BOSCHWITZ. $27 for the food. That is big bucks.

Mr. BACH. One final point to build on a question you raised this morning. It was not part of my intended remarks. You raised the idea of looking at Mississippi's direct distribution system, and I could see some advantages in buying food the way they do through competitive bid. I have some concerns about the availability of the program to the people that need it in a State like Iowa if we set up a system of warehouses rather than allowing them to buy it through the grocery stores.

I think if those could be overcome we could put nutritionists out in the warehouse and figure out a way to do nutrition education. Probably where I would have the greatest concern about that approach is maintaining our links with ongoing health care. In Iowa, as in most other States, we are very closely allied with maternal and child health programs. In fact, most of our clinics are joint clinics with child health or with maternal health clinics that provide a comprehensive set of services. WIC sort of acts as a drawing card to get people into those well-child visits and at the same time they provide that component of the WIC Program.

If we were to move into a warehouse operation, I am not sure how we would manage that.

Senator HARKIN. Now they go right to the stores. If you had the operation, obviously, they would either come to the warehouse, or you would deliver the food.

Mr. BACH. True. But the way it is now, they come into a clinic each month, pick up the checks that they take to the grocery stores, and it is during those clinic visits that they get a lot of their ongoing health services. It is just one of the things to keep in mind in looking at that approach.

Senator HARKIN. That is a good point.

Mr. BACH. With that, I will let my colleagues speak.

[The prepared statement of Mr. Bach follows:]

PREPARED FOR:

SUB-COMMITTEE ON NUTRITION AND INVESTIGATIONS
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE
JUNE 11, 1987

Historical Growth In The WIC Program

The first WIC clinics began in January, 1974. There were approximately three dozen clinic sites in the original pilot project, including the one in Davenport, Iowa. That clinic, incidently, has been in continuous operation ever since. The clinics in this temporary, two year pilot project served an average of 88,000 participants per month that first year, on a total funding level of $10.4 Million.

Thanks to the support of Congress, the WIC Program has grown tremendously since then. By 1978, participation was up to 1.18 million per month, with funding of $379.6 million. In 1982 monthly participation averaged 2.189 million on funding of $948. million. By 1986, WIC had become a major nutrition program serving 3.2 million participants per month through an annual appropriaton of $1.5805 billion. Looked at another way, between 1978 and 1986, monthly participation in WIC increased by 270%.

This explosive growth in the WIC Program has not occurred simply because there was a surplus of federal funds. On the contrary, Congress has continued to increase the appropriation for WIC in spite of severe fiscal restraints. To support an increase in WIC you have overcome budget pressures and Administration recommendations.

The support you have shown the WIC Program in the past has been due largely to a key design element of the original legislation. Your former collegue, Hubert Humphrey, showed great foresight in including an evaluation component in the Program. Over the years, the Program's effectiveness has been demonstrated through continual evaluation studies at the national, state, and local level.

Evaluation Summary

In addition to extensive evaluations of the WIC Program, there have been studies of the studies. A General Accounting Office study, released in January, 1984, reviewed the results of sixty one evaluations that had been done to date. The reviewers had a valid criticism in that the study design of the various evaluations varied considerably in their quality. However, the review did show that the majority of the studies showed positive outcomes, for example in increasing average birthweights and in decreasing the incidence of low birth weight infants. Looked at collectively, the stronger and weaker studies supported each other.

A pair of recent studies done in the State of Missouri were considered to have high quality study designs. One of these indicated a $.49 cent reduction in Medicaid cost during just the first forty five days of an infant's life for every dollar spent on WIC. My friend and collegue from Missouri will address this study in more detail in his remarks.

Early in 1986, USDA released the results of the National WIC Evaluation conducted by the Research Triangle Institute and Dr. David Rush of the Albert Einstein School of Medicine in New York City. The results of this evaluation were impressive. Among the major findings:

Effects on Pregnant Women

Women who participated in WIC had longer pregnancies leading to fewer premature births. There was a 23% decrease in prematurity among less educated white women(less than a high school education) and a 15% decrease among black women with similar levels of education.

WIC participation resulted in a significant increase in the number of women seeking prenatal care during the first trimester and a significant reduction in the proportion of women with inadequate numbers of prenatal visits.

Women enrolled in WIC had improved intakes of many nutrients, including protein, iron, calcium and Vitamin C, nutrients specifically targeted by the program.

The historical study found an increase in birthweight of 23 to 47 grams.

Women at highest risk (minorities and women with less education) benefited most from WIC.

Impact on Infants and Preschool Children

WIC participation contributed to a statistically significant decline in late fetal deaths, about 2.3 per thousand births. This represents a 20-33 1/3 percent reduction in the fetal death rate.

WIC participation also was associated with a reduction in neonatal mortality (early infant death), although this reduction was not statistically significant.

WIC significantly increased the head circumference of infants whose mothers received WIC during pregnancy. (Head size reflects brain growth.)

Children enrolled in WIC were better immunized and were more likely to have a regular source of medical care.

WIC participation appears to lead to better cognitive performance in children. Four-and five-year-old children whose mothers participated in WIC during pregnancy had better vocabulary scores and children who participated in WIC after their first birthday had better digit memory.

WIC improved the diets of infants by increasing the average intake of iron and Vitamin C and significantly diminishing the frequency of low intakes of iron, Vitamin C and Vitamin A.

WIC improved the diets of older preschool children by increasing average intakes of iron, Vitamin C, thiamin, and niacin and significantly decreasing the frequency of low intakes of Vitamins A and B and riboflavin.

The greatest dietary benefits were among children at highest risk: children who are poor, short, black or in families consisting only of the mother and the preschool child.

Most of the attention given to these evaluation studies has focused on the potential reduction in future health care costs associated with WIC. This is an extremely important aspect. However, one of the less prominent findings in the national evaluation also has the potential for very significant future impact. If, as indicated, participation in WIC fosters greater cognitive development - if children can learn better and faster - the implications are beyond calculation.

One interesting facet of the WIC evaluations done so far is that they have not been able to isolate and measure the relative effects of the three separate components of the WIC Program. WIC provides supplemental foods and nutrition counseling and coordination with ongoing preventative health care. It is the combination of these three elements that makes WIC unique and sets it apart from other federal food or health programs. There is a synergistic effect which makes the effectiveness of the whole greater than that of the three separate components. If the Congressional Appropriations continue to provide for one of these, the food, but not adequately provide for the others, the education and health services, the effectiveness of the Program will surely be diminished.

WIC is unique. It is appropriately named the "special" supplemental food program.

Current Status of Program

For federal fiscal year 1987, the appropriation for WIC was $1.6635 billion, which provides services for an average of 3.4 million participants per month. The Congressional Budget Office estimates that it would require $1.715 billion for FY'88 just to maintain the current service level. The Administration, however, requested only $1.688 billion for next year. After allowing for inflation, this level would mean that approximately 55,000 people per month would have to be cut from the Program. More importantly, how does the current service level measure up to the need for services? It does not begin to.

Eligible Population

The WIC Program serves pregnant, postpartum, and breastfeeding women, infants, and children under age five who are in families under 185% of poverty. This income level matches the level for reduced price school lunches. It is difficult to measure this population with a great degree of accuracy. Several years ago, USDA commissioned the Bureau of the Census to do a special run of the 1980 Census data to estimate the number of children in this age and income bracket. According to USDA, this remains the only valid, uniform, national data set of this population. According to the Census data, the income eligible WIC population is 8.3 million. In March, 1987, using this figure as a base, the WIC Program served only 41% of the income eligible population and some states served much less than this. For example, Arkansas served 33% and Kansas 32% of their eligible populations. My home state of Iowa was just above the national mean, at 42%.

There is some evidence that indicates this population figure is underestimated. According to the Census Bureau, in 1979, 17.9% of the children 0 to 5 years of age lived in households below the poverty line. By 1985, their interim estimates showed that 23% of the children five and under now fell into this group. In other words, the number of children in the WIC age and low income population increased by over one fourth!

Minnesota is one state that has developed its own population estimate, rather than relying on USDA's. Their estimate of 163,879 is considerably higher than USDA's estimate of 115,496. Thus while USDA believes that Minnesota serves 49% of its eligible population, they actually serve only 35%.

USDA has been working on a study of the income and nutritonally at risk population. By defining the eligible population more narrowly, this study should produce a smaller total. The study has not been formally released, but current speculation is that the total estimate will be somewhere in the 7-8 million range. Two points are significant. Even using this more conservative definition, the existing need is over twice the current service level. And, I would argue that every low-income infant, toddler, and expectant mother is at nutritional risk. We can only attempt to measure the degree of risk. If there isn't enough food in the house, a pregnant woman is at risk and so are her children. If there is not enough money to buy costly infant formula, an infant is at risk. It is not necessary to wait until they show clinical signs of undernutrition to declare them at risk.

Need for Services in Iowa

A description of the current situation in Iowa provides a useful illustration of demand exceeding the supply of services. We could use some financial relief yet this year. In our planning for the year, we projected a 3.2% increase in food package costs during the year, (which was the inflation factor used in the Appropriation.) However, our cost increased that much in just the first two months. This was due largely to an increase in infant formula prices. By the end of April, seven months into the year, food package costs had increased by 5.5%. We are in the process of cutting caseloads for the remainder of the year.

In Iowa, we have been fortunate in that our food package cost has traditionally been lower than most other states. Thus we can serve a greater number of people with the same size grant. Following are the "only" steps we are taking to control the size of our caseload:

- Not serving post-partum women (priority 6)
- Not serving children over age four (or age three in some areas) who have inadequate diets.
- Not serving anyone - pregnant or breastfeeding women, infants, or children in the top 35% of the income range WIC is designed to serve. That is, we restrict the Program to those under 150% of poverty rather than under 185%. We do this to match the Maternal and Child Health Guidelines.
- Keeping waiting lists of pre-screened, eligible children. The lists include only young, priority five children. We do not bother to include:
    - anyone who is between 150% and 185% of poverty,
    - any three or four year old priority five children, or
    - any postpartum women.

At the end of March we had over 1,000 children on the waiting lists. And, our local agencies had served an average of 1,000 per month more than they were authorized to. In actuality, we should have put several thousand more on the waiting lists. Thus, we are not cutting caseloads for the remainder of the year. And the lists continue to grow.

The situation in other state WIC Programs is similar, or worse, In the past two years, USDA has placed considerable emphasis on the concept of "targeting". This is the idea of attempting to insure services to the highest risk eligibles first. No one can argue with this idea in principle, although I would submit that state WIC Directors have been doing this long before it became a USDA priority. While program enrollment from 1984 to 1986 increased by eleven percent, the number of enrolled pregnant women increased by 19% and the number of infants increased by 22%. During the same period, enrollment of participants in the highest three priorities increased from 78% of total enrolled caseload to 82%. This may be a reflection of increased targeting, but it is also a reflection of increased demand for services. If the total demand for services increases, the number of high risk individuals will increase accordingly.

Summary

Senate Joint Resolution 99 expresses the intent of the Congress to increase funding for the WIC Program to serve a substantially greater percent of the WIC eligible population over the next several years. We believe that the target levels expressed in this resolution are reasonable and that this level of growth can easily be accommodated by state Program managers. Furthermore, while recognizing the need for overall budgetary restraint, we believe that additional funding for WIC is a cost effective investment in America's future. There is nothing more vital to the country's national defense than the health and nutrition status of its population. An investment in WIC will be rewarded many times over in the decades to come.

Prepared by:

Dennis H. Bach, Director
Iowa WIC Program
Iowa Department of Public Health
Des Moines, Iowa

Senator HARKIN. We will move down the line to hear Terry Williams, president of the National Association of State WIC Directors.

Senator BOSCHWITZ. Somebody should discuss, if you will, why the food packages vary so greatly in cost, and I can ask Senator Cochran's assistant how they work it in the State of Mississippi, but the idea of setting up a warehouse in every county, and some of our counties are pretty big. I guess yours are, too. You have more counties than we do, I think. That would be quite a task.

Senator HARKIN. That is quite an undertaking.

Senator BOSCHWITZ. Yes, quite an undertaking. Quite aside from the fact that if you still send them, you could send them to the doctor and then to the warehouse, I suppose, so that they would still get the educational aspects. But perhaps, Mr. Williams, you can make some comments about Mississippi, if you would. And also why there are different food costs? Everybody should be as efficient as they are in Iowa.

Senator HARKIN. Thank you.

Senator BOSCHWITZ. And it is the last good thing I will ever say about Iowa.

Senator HARKIN. Thank you, go ahead, Mr. Williams.

STATEMENT OF JOSEPH T. WILLIAMS, PRESIDENT, NATIONAL ASSOCIATION OF WIC DIRECTORS, CHEYENNE, WY

Mr. WILLIAMS. Thank you, Senator. Maybe to just take a minute on the Mississippi situation. As it was noted, they do a competitive bid for all of the foods, and then they have these warehouses, which I believe are quite accessible in many of the counties, throughout Mississippi.

The fact that they do a competitive bid, they actually, I believe, are purchasing infant formula, for example, as one of the products at, I think, even a better price than what the USDA representatives, who were here, are purchasing it for the Commodity Food Distribution Program.

So the WIC Program allows us to use three options in terms of delivery systems. One is the warehouse system which Mississippi uses. The second is a dairy delivery system, and it has been referred to in terms of Vermont, and Ohio uses a competitive bid/dairy delivery aspect. So Ohio has the dairies competing. What I am trying to bring out is the concept of competitive bid is used all over the WIC Program in terms of these various systems. And so what Tennessee is attempting to do is something quite comparable to what occurs in the other two distribution systems, that is, the warehouse distribution system and the dairy delivery system.

Senator BOSCHWITZ. Only comparable in the sense that there is a bidding process.

Mr. WILLIAMS. There is a bidding process that is going on, and through that bidding process of taking the significant chunks of the food program, the food aspect of the program, and asking within the companies that are interested in participating to give us the best price, and that best price then is provided via the warehouse distribution system, or the best price is provided via the dairy delivery system. And so as you look at——

Senator BOSCHWITZ. As I understood the Tennessee approach, that is not exactly what they are doing. They are saying to a company we will print on the voucher you can only have this kind of——

Mr. WILLIAMS. Through the retail distribution system.

Senator BOSCHWITZ. Yes.

Mr. WILLIAMS. But there is only one kind of formula available in these other systems with the exception of a special one the doctor wants. So the same holds true. It is just in the case of Tennessee and Mr. Martins will point out, using their competitive clout or resources to try and do it through the most accessible points for the Tennessee participants, that is, the grocers in Tennessee.

So what Tennessee is attempting to do is comparable to what Mr. Barr in Mississippi does in terms of the warehouse system, as well as Vermont and Ohio and Maryland in terms of working with dairies and trying to secure a reduced price and consequently having and being able to more efficiently expand the program.

I would like to, if I can, go on and mention basically the three components of the program. And first of all, I want to recognize that, and thank you for the bipartisan support you have provided the program. We recognize that expanding a program such as this, this nonentitlement program, in these hard economic times, is a reflection of the values and confidence you place in the program in meeting the nutritional needs of low income mothers and children through the WIC Program. And up front, we greatly appreciate and assure you that you have our every management skill in terms of trying to continue to expand the program within the limited resources that we have in order to improve the health of this Nation's mothers and children.

The three components of the program that I would like to comment on are, first of all, the supplemental food. The second issue is the nutrition education, and then the third issue is the relationship as an adjunct to health care. And the point that I am wanting to make here is that it is these latter two aspects, the education aspect and the access to health care that we are asking for assistance in terms of being able to maintain the excellence that I think exists in the program.

First is the supplemental food. The foods are special in that the food package is tailored and individualized to meet the specific needs of the participant. This tailoring results from initial health screening and food intake assessment. So that is what is done when the person first comes into the program.

Consequently a child exhibiting iron deficiency anemia will have a different supplemental food package prescribed than a child who is small for age. So that is one advantage. We are just not throwing out. We are tailoring the supplemental food package to meet the needs of the individual participant.

The second concept is nutrition education. Parents are counseled not only in how to best use WIC foods, but also what other foods the family should be purchasing, and the child consuming in order to complement the WIC foods. In other words, take the rest of the family's food intake pattern and complement it in order to solve the health problems that the individual child or whoever it is on the program exhibits.

The third component is the maternal and pediatric health care system to which WIC functions as an adjunct. Frequently, as Dennis pointed out, we are collocated. In fact, that is the majority of situations around the country. If you look at the some 1,600 projects, we are physically colocated with the health entity in order to be able to provide a package. WIC by regulation is to function as an adjunct of the health care system, and that is where a lot of its strength comes. So WIC needs this tie to quality maternal and pediatric care because many of the—when I first started the program and was in Wyoming in 1980, the State health officer said you colocate, and you function as an adjunct of that health care system because in addition to the nutritious foods and the education you can provide, what these people need is to get into, they need an access to the health care system. And as Dennis pointed out, it is those three components in a synergistic effect they have, I think, the real strength of the program. So the tailored supplemental food, the nutrition counseling, and the communication between the participant and the WIC staff and a health care system is what makes WIC successful.

I think if we are faithful to that, all three components, WIC will continue to be successful. To that end, we are asking for assistance in terms of consideration in terms of the 80/20 issue. I would like to identify that we are not wanting to expand the direct service, but we are asking to maintain the existing services.

And when we talk about the existing services in terms of the education and health elements of the program, we are talking about these types of services. I am referring to include the initial participant health screening and assessment. At that time, we identify the person's nutrition risks and that they validly should be placed on the program. And that is tied to whatever is existing in the health care system in that State.

The priority placement, and as you know, there has been considerable improvement at your encouragement in terms of increasing and making—I am very proud of the data that Mr. Bode pointed today, that the WIC managers across the country responded, and are serving increased numbers of pregnant women and infants on the program. I am also greatly concerned about the number of children who are going unmet because in my own program in Wyoming, we have waiting lists in all of our 33 clinics. And the majority of those applicants are children whom we cannot serve because we do not have the resources.

And also we decide on a supplemental package. We are buying that. In addition, we do the income determination. We provide the food instruments to the participant. We offer an explanation of how the program is operating. We do the vendor monitoring, and the participant education, and the referral to the health care. So there is a whole package of mandated expectations on our part that we use at approximately $8 per participant in order to serve. The lion's share of it is not administration, but it is direct hands-on services.

Senator BOSCHWITZ. The eight bucks?

Mr. WILLIAMS. The eight bucks.

Senator **Boschwitz**. Do you have any sense of how that, the administration, what part of it goes to folks like yourself and what part of it goes to the other aspects that Dennis referred to?

Mr. **Williams**. In terms of the services directly tied to the participant, in my own program 94 percent of those go to the participant.

Senator **Boschwitz**. I did not understand that.

Mr. **Williams**. The health screening and the assessment, the education and counseling, the referral to the health care system, nonadministrative things, but they are identified under the broad term of administration here and 94 percent of the resources in Wyoming, in my own program, go to the participant. There is myself and a secretary and a banking system that supports that. The rest of it is direct——

Senator **Harkin**. In other words, you are saying that the administrative costs are not just for people sitting around doing paperwork. They cover the people that examine the health of each participant that comes in—the people that teach participants about nutrition, correct?

Senator **Boschwitz**. It is 94 percent of the 20 percent.

Mr. **Williams**. Yes.

Senator **Boschwitz**. And in your case?

Mr. **Bach**. I cannot give you a comparable figure, but I know the portion that would be considered true administrative cost is relatively insignificant compared to the direct service part.

Senator **Boschwitz**. I think if that is the case I was not aware of that.

Mr. **Bach**. Administration is actually a misnomer for that 20 percent. It is direct service costs, and a small portion of that is really what most other programs consider administration.

Mr. **Williams**. And so from that perspective, H.R. 7 passed by the 99th Congress wisely reidentified administration as nutrition services and administration.

So why we are asking for some consideration in terms of indexing: the cost of providing these services has been increasing approximately twice as fast as the WIC food costs over the course of the last 3 years.

H.R. 7 restated that our first priority is to serve increased numbers of pregnant women and infants. Caseload composition has been changing. In the past 2 years, while the enrollment, thanks to the generous support that Congress has provided the program, while the enrollment has increased 11 percent, the number of infants has increased by 203,000, or 22 percent, and the number of pregnant women by 82,000, or 19 percent. So as managers, we are taking the resources and targeting them to higher risk people, and they, in turn, take more direct services.

The higher per participant requires more individualized care and of longer duration. The clinics that have got the highest percentage of prenatals and infants have our highest percentages in terms of counseling costs, in terms of nutrition education and that is tied to the mother going through the pregnancy, particularly for the first time, and counseling her in terms of nutrition needs during the fetal development process. That is quite different than when we offer nutrition education in a small group type approach and work with, say, half a dozen moms whose children have the same type of common problem. Say it is iron deficiency anemia, or a low stature for age, and you are talking about enhancing the child's diet.

The fifth element here is that USDA is revising the food funding formula this coming October. The focus of that is to, again, further effect increased targeting in order to serve more of the higher risk participants, and without indexing this will place greater stress on direct services.

And finally, WIC functions in a health environment, frequently colocated with the other resources. We hire and sometimes share the same type of staff, and we have to be competitive within that environment.

Finally, while hopefully I am an innovative manager, I know I am a conservative manager, and want to get as much benefit for each dollar for our participants as is possible. And while I believe indexing is the responsible way to maintain all of these components, I do not want indexing to reduce the number of participants served.

If we implement indexing, I trust my fellow WIC directors will rise to the occasion and see that participation is not reduced. In summary, we want what is best for our participants, and there are three elements: the supplemental food, the education, and the adjunct to the health care system. And it is those latter two which basically seek to direct services that we need some help on. And I would suggest that indexing is one responsible way of approaching this.

Senator HARKIN. Let us move ahead. Betsy you are next.

Senator BOSCHWITZ. Very good testimony.

Senator HARKIN. I agree, that was very good.

[The prepared statement of Mr. Williams, with attachments, follow:]

Joseph T. Williams

Testimony Before the U.S. Senate Committee on Nutrition

June 11, 1987

First, I would like to acknowledge and thank you for the past bipartisan support you have provided the WIC Program. In the past two years, Program enrollment has grown by 11% to 3.4 million mothers and children. This fiscal year, with your continued support, we will be able to maintain program participation between 3.4 and 3.5 million. We recognize that expanding a non-entitlement program in these hard economic times is a reflection of your values and confidence you place in the program in meeting the nutritional needs of low income mothers and children. I wish to assure you, that as WIC Directors, we will use every management skill we have to continue to be worthy of your trust in improving the health of this Nation's mothers and children through the WIC Program.

The concern that I wish to bring on behalf of State WIC Directors to you today, is not to change the 80-20 funding formula law, but rather to allow for an indexing of the administration and food grant components. Our objective is to be able to maintain existing participant services.

By way of background: The division of the WIC appropriation, 80% for food, 20% for non-food (direct services and administration) is written in the WIC legislation and generally has served the program very well. However, during periods of low food inflation and more rapid increases in the cost of providing direct services, states are less able to provide adequate direct participant services to all participants (who are increasingly higher risk participants). Direct participant services include participant health screening to determine nutritional health risk, income determination, provision of food instruments, participant program explanation, food delivery system monitoring and participant nutrition education. The FY 1986 national participant to staff ratio was 260:1.

There are six interconnected reasons motivating a change in indexing based on costs:

1. Inflation in Direct Services

   The annual adjustment made to the program is based on food, not direct service costs.

   The program's direct participant services are personnel driven. Approximately 2/3 to 3/4 of each state's non-food budget is allocated to cover personnel to provide services to WIC participants.

   One measure of the cost of direct service is the Bureau of Economic Analysis: State and Local Purchase Deflator. This index includes the cost of State and Local Government salaries. During the period of 1977 through 1986, WIC foods increased by 53.03%. During the same period, the State and Local Government Deflator Index increased by 83.14%. In the more recent years of 1984, 1985 and 1986, WIC foods increased by 7.3% while the State and Local Government Deflator increased by 14.36%. In such an environment, we believe a moderate adjustment is reasonable.

2. Directives in HR-7

   HR-7 was passed by the 99th Congress. HR-7 maintains the types of costs for which WIC administrative funds are to be used but changes the term "administrative costs" to "costs for nutrition services and administration." I believe this better reflects the program's reality that the majority of the 20% is used to pay for participant services, not administration. HR-7 goes on to state that "when vacancies occur after a local agency has reached its maximum participation level, first priority is to be assigned to providing WIC benefits to pregnant women, breastfeeding women, and infants at nutritional risk or demonstrated by hematological or anthropometric measurements or other documented related medical conditions that demonstrate need for supplemental foods. These are the recipients for whom the WIC Program is most effective and should be given greatest priority."

3. Caseload Reflects Increased Enrollment of High Risk Participants

   As State WIC Directors we agree with the philosophy of HR-7. Consequently, the composition of the WIC caseload has been changing over the past several years. These higher risk participants require increased direct services.

   While the enrolled caseload between September '84 and September '86 increased by 11%, during the same period the number of enrolled participants in the highest three categories increased from 78% of total enrolled, to 82% of total enrolled. Further, the number of infants during the same period increased by 203,457 (21.8%) and the number of pregnant women by 81,776 (19%). These changes have already occurred without the discipline of a revised funding formula.

4. Higher Risk Participants Require Increased Direct Services

   More nutrition services are required for higher risk participants. The number of contacts you have to make to higher risk pregnant women is based on fetal development and the mother's health condition. This requires more contacts of longer duration. The regulations also direct that high risk care plans be available to these individuals.

   Local agencies with the highest percentage of prenatal participants, in time studies show staff spending greater percentage of time on participant education.

5. 1988 Food Funding Formula is Changing to Target High Risk

   FNS is revising the food funding formula for FY88. The effect will be for states to direct their outreach to do increased targeting to higher risk participants. This will provide further impetus to direction in outreach already being taken.

6. WIC Functions as an Adjunct to Health Care System

   WIC, by regulation, is to function as an adjunct to health care. The majority of professional staff a state hires to do health assessment and nutrition education are nurses and nutritionists. We all know what has been happening to the cost of health care. As the WIC Program is frequently co-located within health agencies, we have to cover the same personnel expenses.

Finally, I am a conservative program manager that wants to make sure that the funds you direct to the program serve as many participants as possible providing both a tailored supplemental food package and good quality direct services. I believe that indexing will better assist states to maintain services. However, I do not want to see participation diminish. Accordingly, I advocate that if the indexing provision is implemented, it be critically reassessed prior to the program's reauthorization so that we can certify it is operating in the participant's best interest.

For more information, please contact J. Terry Williams, (307) 777-7494.

NATIONAL ASSOCIATION OF WIC DIRECTORS

Infant Formula Issues and the WIC Program

A Briefing Paper
Prepared by the National Association of WIC Directors

I. General WIC Program Background

The Special Supplemental Food Program for Women, Infants and Children (WIC) provides highly nutritious foods and nutrition screening and nutrition education to low income, nutritionally-at-risk pregnant women, new mothers, infants and children under age five. Currently, WIC serves about 3.4 million participants, of whom 740,105 are pregnant and post-partum women, 992,487 are infants, and 1,667,700 are children. Participants receive specific food packages based on whether they are women, infants or children and depending on their nutritional needs. WIC foods include milk, cheese, eggs, cereal, juice, peanut butter (or beans) and infant formula.

The infant food package consists of infant formula for infants from birth through three months of age and of formula, juice and infant cereal for infants age four months to one year. WIC provides up to 31 thirteen-ounce cans of iron-fortified formula per month per infant.

Close to one-third of all infant formula purchased in the United States is purchased through the WIC program. Infant formula purchases comprise approximately 30 percent of all WIC food costs and could amount to more than $400 million in sales this fiscal year.

II. Background on the Infant Formula Industry

There are three major manufacturers of infant formula in the United States: Ross Laboratories, Mead-Johnson and Wyeth Laboratories. All the subsidiaries of multi-national pharmaceutical companies: Ross is a subsidiary of Abbott Laboratories; Mead-Johnson is a subsidiary of the Bristol-Myers Corporation; and Wyeth is a subsidiary of American Home Products Corporation. These companies produce about 99 percent of all infant formula purchased in U.S.

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Since the spring of 1983, Ross Laboratories and Mead-Johnson (who jointly control about 90 percent of the domestic infant formula market) have raised the price of iron-fortified formula five times. Wyeth has repeatedly raised prices as well. Each price increase has been greater than inflation, often double the inflation rate.

On a number of occasions, the companies announced price increases at about the same time during the year, with the price increases for each company being of about the same magnitude. For example, on August 28, 1986, Wyeth announced a seven percent increase to be effective on September 17, 1986. On October 10, 1986, Ross Laboratories announced a six percent price increase to be effective November 3, 1986, and on October 20, Mead-Johnson announced a 6.7 percent increase to be effective November 17, 1986. As the price of formula has increased over the years, a greater proportion of WIC dollars has been spent on infant formula.

Over the past six fiscal years infant formula prices have risen more than 60 percent while the overall cost-of-living has risen just 37 percent and grocery store food prices have risen 23 percent.

III. Current Prices of Infant Formula

Forty-eight states distribute infant formula and other WIC foods through a voucher or check system in which the WIC participant buys infant formula at a retail grocery store and pays for the formula with a WIC voucher or WIC check. While the retail price of iron-fortified formula varies across the country, the average price for a 13-ounce can of concentrated iron-fortified formula is about $1.40.

In states with home delivery or direct distribution systems, the cost of formula is generally much lower, ranging from $.47 a can to $.95 a can. In all of Vermont and in parts of Ohio, the WIC program distributes food through a "home delivery" system, which operates somewhat like a door-to-door milk route. In these programs, the state health department or the dairies operating the delivery route, purchase formula directly from a single manufacturer. The purchasing is done through competitive bidding, with the company that is the lowest bidder being given the contract. In Mississippi, a direct distribution system is utilized. Here the state purchases all the WIC foods, stores them in warehouses, and distributes them directly to participants (who come to warehouses or other distribution points to pick up the food). In Mississippi, like in Vermont, and Ohio, one brand of formula is purchased through competitive bidding.[1]

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[1] Some localities in Maryland also distribute WIC foods through a home delivery system, but do not use competitive bidding to purchase infant formula.

Mississippi pays about $.47 a can for infant formula for its WIC program. In Vermont, and Ohio, infant formula is currently purchased for the home delivery programs for $.52 to $.95 a can. These costs include storage and distribution cost.

In addition, USDA purchases infant formula for the Commodity Supplemental Food Program (CSFP), a program similar to WIC, at prices substantially lower than the average retail price. Through competitive bidding, USDA recently purchased formula from one manufacturer for the first six months of fiscal year 1987 for $.66 a can for the CSFP program. The cost for the commodity purchase includes delivery to a designated site. Additional storage and distribution cost may be incurred in some states.

IV. Work Underway to Reduce Infant Formula Costs

The experiences in Mississippi, Vermont, and Ohio have convinced WIC directors in other states that substantial savings in infant formula costs are possible. The states of Tennessee, South Carolina, and Oregon, have taken the lead in attempting to incorporate competitive purchasing practices (as utilized in Mississippi, Vermont, and Ohio) into their voucher or check systems while continuing to distribute WIC foods through retail grocery stores. Both Tennessee, and South Carolina, have received approval from USDA to change their WIC state plans and implement a "price enhancement" or "rebate" system. A price enhancement or rebate system seeks to use competitive bidding to lower costs while still continuing to operate through retail stores.

In a rebate system, a state requests proposals from infant formula manufacturers for a reimbursement (or rebate) for each can of formula sold to participants through the WIC program. The state awards the contract to the formula company that offers the highest rebate, and this company's formula is then the formula product used in the state's WIC program. (Special formulas and other brands of iron-fortified formula can still be prescribed by doctors, however.) States notify the manufacturer of the number of cans of formula sold through WIC and the manufacturer reimburses the state the amount equal to the number of cans of formula sold to WIC participants times the rebate per can. These funds are returned to the state's WIC account and used to serve additional participants.

Tennessee is the state furthest along with its plan to initiate a rebate system. In July, 1986, Tennessee requested bids from infant formula companies and received a potentially acceptable bid from Wyeth Laboratories. Tennessee's request sought an infant formula company to provide milk and soy-based formula through the grocery stores now participating in Tennessee's WIC program and to provide a rebate to the state for deposit in the WIC account. Wyeth agreed to provide a 40-cent rebate for each can of formula sold to WIC participants. Tennessee estimates that it can save approximately $3 million a year through this rebate plan and serve approximately 7,200 additional low income women, infants and children each month with the savings. The state hopes to negotiate a contract with Wyeth to provide formula.

South Carolina is currently working on a plan to initiate a rebate system. The Oregon Health Department recently held a press conference to announce its intention to apply to USDA for approval of a modification to its WIC state plan to initiate a rebate system.

In addition to activities in these individual states, the National Association of WIC Directors (NAWD), which supports state efforts to reduce infant formula costs, has established a task force to examine ways to realize economies in purchasing infant formula.

Individuals wishing more information on the infant formula issue and related activities in the WIC community are urged to contact Richard Blount, the director of the Missouri WIC Program, who serves as chairman of the Task Force on Infant Formula of the National Association of WIC Directors. Blount can be reached at (314)751-6204 or by writing to State Department of Health, 1730 E. Elm Street, Jefferson City, MO 65101.

January 7, 1986

Comparative Formula Cost Per Can

Mississippi	$.47*
USDA	.66**
Vermont	.70*
Ohio	.52-.95*

Average Retail Cost $1.40

* Cost includes storage and distribution.
** Cost includes delivery to a designated site. Additional costs may be incurred in some states.

NATIONAL ASSOCIATION OF WIC DIRECTORS

September 11, 1987

Senator Tom Harkin, Chairman
Subcommittee on Nutrition and Investigations
316 Hart Senate Building
Washington, D.C. 20510

Dear Senator Harkin:

The purpose of this communication is to provide requested information as a follow-up to the Committee hearings on June 11, 1987. This information is in support of S-305 and for further consideration of indexing the food and non-food components of the grant.

In the Administration's testimony it is noted that 20% of the WIC funds are used for non-benefit purposes and this portion is a higher percentage than for most other Federal assistance programs, including Food Stamps and AID to Families with Dependent Children.

I wish to take issue with the interpretation that WIC's only benefit is the supplemental food. In establishing WIC, Congress had the wisdom to see that WIC was to function as an "adjunct to the maternal and child health care system." Consequently, direct non-food benefits such as health screening, assessment and referral and nutrition education are included as an integral part of the requirements and benefits of WIC participation.

To provide information to the Subcommittee, the National Association of WIC Directors has conducted a survey to determine what portion of the FY86 non-food funds were used for the provision of direct participant services versus those expenditures that are determined as administration. The definitions used to define Service Delivery Costs and Administrative Costs are comparable to those used for other Federal Health and Human Service Programs. The definitions are:

> Service Delivery Costs: All costs associated with the certification process, e.g. appointment scheduling, intake, health assessment, diet assessments, referrals, documentation, etc. Include costs for personnel, medical records, lab supplies, and medical equipment. All nutrition services costs. All costs necessary for operating

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the food delivery system, including food instrument issuance and reconciliation and vendor monitoring. Include costs for printing of food instruments and development of training or educational materials. All computer costs related to the certification process and food delivery systems. All quality assurance activities.

Administrative Costs: Overhead and management costs not attributed to the functions listed above. Include administrative salaries, accounting, bookkeeping, auditing, and other financial services, legal services, administrative record keeping, data processing costs for fiscal or management reports, clerical support, payroll and personnel systems, office supplies and equipment, communications, postage and freight, travel, indirect costs, insurance, office rent and utilities, and custodial services.

Survey Findings:

1. Thirty-seven states, the District of Columbia, Puerto Rico and nine Indian State Agencies responded.

2. Reporting states used 67.9% ($219,320,152 of the $322,816,089) of the non-food grant that was available to all states in FY 1986.

3. Reporting states provided WIC services to 70.9% (2,341,036 of the 3,311,674) enrolled participants.

4. Of the 48 reporting agencies, four used between 90 and 100% of their grant for direct services; sixteen used between 80 to 89%; eight between 70-79%; nine between 60-69%; ten between 50-59%; and one state used 48%.

5. Of the 219 million non-food resources used by these forty-eight agencies, 74.5% (163,397,448) was used for provision of direct services and 25.5% (55,922,704) for administration.

6. Further, while many states do not have the ability to identify "in-kind" state and local contributions, twelve states were able to report in-kind WIC Program contributions of $8,644,253.

7. Further, in FY86 at least six states - Massachusetts, New York, Pennsylvania, Texas, Illinois and Iowa directly supplemented the Congressional appropriation in the amount of forty-five to fifty million.

Conclusions:

1. Federal appropriations for WIC in the provision of participant services

in FY86 were used in the approximate order of 80% food, 15% direct services and 5% administration.

2. States initiating cost containments such as identified in S-305 need to be authorized to use up to 20% of the savings to cover the cost of servicing an expanded caseload, because the survey findings support that three-quarters of the average costs represent direct participant services.

3. Indexing of the two components of the grant (food and non-food) should be further examined because inflation's impact varies between food and direct services.

4. When the Program is being considered for reauthorization, the non-food component of the grant should be redefined to include Direct Services and Administration each as separate entities.

Thank you for the interest of the Subcommittee and the opportunity to respond. If I can provide further information, please call me at 307-777-7494.

Respectfully yours,

Joseph T. Williams
President

mas
cc: NAWD Executive Committee

NATIONAL ASSOCIATION OF WIC DIRECTORS

September 14, 1987

Bob Andros
Legislative Analyst
317 Hart Senate Building
Washington, D.C. 20510

Dear Bob:

As a follow-up to the June 11 hearing, you requested the Association provide you with a profile, by State, of the WIC Program need being met in each State.

Attached is a State by State presentation of the latest figures released by USDA. Total income eligibles is 7,969,758 among the 50 States. This does not represent the Indian State Agencies, Puerto Rico, Guam or the Virgin Island Programs. June participation was 3,279,577. This represented 41.2% of eligibles.

If you have questions, please call me at 307-777-7494.

Respectfully yours,

Terry
Joseph T. Williams
President

mas
Attachment
cc: Executive Committee

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WIC Program: Percent of Need Being Met (June, 1987)

State	Total Income Eligibles[1]	June 87 Participation[2]	% of need reached in June[3]
Alabama	183,831	76,679	42%
Alaska	15,253	5,558	36%
Arizona	103,062	34,149	33%
Arkansas	116,228	37,183	32%
California	842,641	271,142	32%
Colorado	91,296	37,424	41%
Connecticut	69,597	44,208	64%
Delaware	19,919	7,393	37%
D.C.	22,785	11,128	49%
Florida	323,152	118,018	37%
Georgia	246,126	112,871	46%
Hawaii	41,389	10,360	25%
Idaho	55,276	16,331	30%
Illinois	347,153	165,346	48%
Indiana	179,726	69,945	39%
Iowa	90,967	34,492	38%
Kansas	80,752	26,157	32%
Kentucky	161,686	68,500	42%
Louisiana	204,161	90,806	45%
Maine	46,779	19,251	41%
Maryland	107,311	39,394	37%
Massachusetts	145,180	56,931	39%
Michigan	278,477	128,765	46%
Minnesota	115,496	55,111	48%
Mississippi	152,963	91,390	60%
Missouri	169,363	60,039	35%
Montana	33,429	13,815	41%
Nebraska	54,753	20,010	37%
Nevada	22,167	11,781	53%
New Hampshire	25,991	13,268	51%
New Jersey	188,113	73,274	39%
New Mexico	68,703	23,019	34%
New York	597,731	254,141	43%
North Carolina	233,192	106,312	46%
North Dakota	25,567	11,419	45%
Ohio	335,748	183,136	55%
Oklahoma	105,645	40,168	38%
Oregon	87,108	33,782	39%
Pennsylvania	333,980	152,548	46%
Rhode Island	27,165	14,077	52%
South Carolina	144,468	77,173	53%
South Dakota	34,464	11,461	33%
Tennessee	188,599	73,997	39%
Texas	613,291	223,539	36%
Utah	96,777	32,726	34%
Vermont	20,061	15,146	76%
Virginia	172,363	68,593	40%
Washington	127,936	41,142	32%
West Virginia	74,260	27,415	37%
Wisconsin	134,085	60,364	45%
Wyoming	13,593	8,700	64%

1. Number of low income eligibles calculated by USDA based on 1980 Census data on population and housing. Does not include eligibles on Indian Reservations that administer their own WIC Programs.

2. USDA report, "State Agency Participation and Expenditure Report," dated June, 1987.

3. Does not include women and children served by Indian agencies who contract directly with USDA.

Mr. BLOUNT. I think, sir, I was next.

Senator HARKIN. Oh, you want to go next?

Mr. BLOUNT. As you called it awhile ago. I am willing to go in any order.

Senator HARKIN. Fine, go ahead.

STATEMENT OF C. RICHARD BLOUNT, CHIEF, MISSOURI STATE WIC PROGRAM, JEFFERSON CITY, MO

Mr. BLOUNT. I guess part of my anxiety is when I sat there awhile ago with our friends, sparring partners, from the USDA, John and George, I was like the old fire horse that just as soon as the bell rang, I wanted to get in there and go with them. There were so many things that I wanted to say in response to what they were saying or you were asking them that I am perfectly willing to lay aside much of what I prepared, but I will try to touch upon that, but more specifically address.

Senator HARKIN. Please go ahead.

Mr. BLOUNT. The thing that I saw there was the fact that much of what was being talked about was management and so forth. I think the success of the WIC Program, which we all know about, is both because of the wisdom of the program in the beginning and also by good management. And I was appreciative that Mr. Bode said that we had worked together on Focus on Management as full partners. WIC managers are very much interested in how you control costs, and we were partners in that. We have 41 standards of good management quality, and I will touch upon those, but I want to, in doing that, answer some specific questions.

I think there is numerous evidence of the innovative and the effective things that States are doing to take the initiative. Let us talk about the food package for a moment because that is—I am with you, Senator—why is there the difference? What are States doing to control the cost? I think Missouri has one of the higher food package costs. If you look in your chart, you will probably find us around $36 or $37. It depends upon which report that you are looking at.

Senator BOSCHWITZ. $35.75.

Mr. BLOUNT. $35. That is an older report. It has gone up and I want to speak about that, too. Let me suggest some of the innovative things that we have done. I heard USDA friends saying they have cut out juice in Arkansas or they have contained the type of juice. I heard them talk about cheese. What Missouri has done as the "show me" State all the time that we have been in the program, we have tailored our food package. We have more than seven tailored food packages depending upon the particular nutritional need of the type of person that we certify. We have not allowed sliced cheese. We do not allow deli cabinet cheese. We want the bulk, the less expensive cheese. We have never had peanut butter because we do not feel we can afford it. A lot of States do.

We also have looked at the way the food is packaged. We will not let them get the more expensive package. They can get the less expensive and get the same nutrient value. We have done those things. Other States are doing as much or more than what Missouri is doing. You talked about watching your vendors. We have, I think, one of the highest risk vendor systems in the country, but you also have differences.

I think one of the differences about Missouri and some of the other States, we are both very rural and also very metropolitan. As you know, with St. Louis and Kansas City, and we have some counties that are so rural they closed the courthouse because there was not enough business or tax money to keep it open. We have counties that do not even have a pharmacist in them. So, we are looking at all kinds of market difference, and due to the demographics of the State, St. Louis has one of the highest food costs by the Department of Labor's own food basket packages and so forth. So you have to take those kind of things into account when you ask about the differences in your food package.

What we have done in Missouri is work through the Missouri Retail Grocers Association trying to find ways that we could categorize the vendors themselves. So using our software system, we actually compare prices of the "mom and pop" store in the inner city as compared to the supermarket in the suburb or in the city. We look at the difference of the geographics of the rural area. Then what we do is to take all of the shelf prices of those same vendors, in like categories and like geographical areas, and we will compare those shelf prices, and a vendor who is more than 10 percent above the average, we will not let come into the program. We cut them out because of high cost. So I am simply using that as some quick examples that I could document very easily that the States are as conscientious about cutting food costs and cutting other administrative costs.

There are some things that we cannot control in the market place.

Senator HARKIN. That all sounds very good, but I am telling you, when I go to Missouri——

Senator BOSCHWITZ. Eight bucks.

Senator HARKIN. That is right. There is an $8 difference between Iowa and Missouri. Look at the difference in the administrative costs, it is $2. I go to Missouri a lot, and food is not that much more expensive in Missouri than Iowa, if at all.

Mr. BLOUNT. Let me speak to that, sir, again, by simply stating that we have the data that comes from the marketplace itself. I would be glad to share that with you. I would be glad to share our price list of all the different items that we have. The thing that has really hurt us, and I say that in my prepared testimony. And I do not want to single out the infant formula companies. It is a whole food package basket that I am talking about. But in 1980, the food cost to Missouri was $26 per month per participant. We have watched that in spite of all of these things that we have done. We have watched that go to $37 a month now in the current program year. That is an increase of 42.3 percent in the food cost since 1980 figures. When we look at what is the basic cost of that food package, we naturally look at the infant formula because it represents 30 percent of the cost of our food package in Missouri, and I think mostly across the country.

What has happened is that within the last same period of time that I have talked, the last 6 fiscal years basically, the cost has gone up by 60 percent, inflation 37 percent, and the food basket 23 percent.

Senator HARKIN. Please let me interrupt. I see in your prepared testimony on page 3, infant formula represents 30 percent of your food costs.

Mr. BLOUNT. Right.

Senator HARKIN. How much did infant formula cost the last 6 years? It went up 60 some percent.

Mr. BLOUNT. Right.

Senator HARKIN. Why don't you use competitive bidding?

Mr. BLOUNT. Sir, we are certainly considering that, and I would be glad to speak to it in this way. I think competitive bidding has a great deal of merit to it.

Senator HARKIN. Well, I guess it does. Why don't you do it then?

Mr. BLOUNT. We are looking at it. We are considering that as a possibility for this year. What we are looking at primarily, and this is one of the real issues that not only Missouri is looking at, but other States, and you are going to hear from two more of them today, the other matter of the $8 for your unit cost.

Again, what we have done in Missouri—you asked, Senator, how that compares with the real world out there. We have actually gone into our local agencies and done time studies on how professional time is used. Basically what we are looking at now is about 45 minutes per month per client for all of the personnel costs at the local agencies. That includes the professional level nurse that does the health assessments. That also includes the professional level nutritionist who does the nutrition education, and that also includes the clerical people who issue the redeem vouchers, plus all of the other costs. We have a breakdown on that.

So when we look at that, we do not frankly know how we can further cut without cutting into the quality of the services. I think if you cut any further, and I believe that is what other States are talking about, it is at the point where we are cutting to the bone now the quality of the service. We can administer the program with the people if you simply have a tendency to increase the volume that you run through your local agency.

But your quality of service erodes when you do that. So the problem that we have, and I have used this example before, what if we go out on competitive bid? What if we were to get a good savings? If it is costing, say, $8.11, the national average, or $8.40, or whatever it may be, I used an example of $8.40. If were to save 5 percent in the cost of our food and still then turn around and take the food package and divide it up to serve more people, we would be able to serve somewhere in the neighborhood of 2,500 more people a month.

But you already, you see, have a unit cost on what it costs you to serve one person that you were talking about earlier. And then you serve another 2,500, where do you get the money, you see, to serve that other 2,500? Your unit cost does stay the same, but you are serving more people.

Senator HARKIN. You get the extra money from the savings you get from cuts in what you are spending on the food.

Mr. BLOUNT. I totally agree with you, Senator. And that is exactly what the position of NAWD is. If you can save that kind of money on your food, then still take the savings and divide that by 80/20, the same way the original grant is, then you can continue the unit cost of quality service. You can serve 2,500 more people if your food grant is $25 million. I use that as an example.

You could serve 2,500 more people using the Missouri data, not costing hardly more than a few hundred dollars extra for the whole Federal allocation. It is the matter of using some of the savings from the food in order to maintain the quality of the service for the new people that you are seeing, and what you are going to hear from Tennessee and Oregon and what you are hearing from Missouri, Senator, is why we have not done it as yet.

Senator BOSCHWITZ. What percentage of the 20 percent is the administrative cost as Terry has defined it?

Mr. BLOUNT. I would agree very much with Terry's figure, Senator. We have done a study on that in Missouri. I will be glad to send it to you. We break out how much we spend for the computer software system, how much we break out for this, that, and the other. We have one of the highest ratios of money going directly into services to the client, through the local health agencies.

And you will find that if you break out the operational costs, and we do not look at it as administrative, and neither does H.R. 7 now. We call it operation. It is very small.

Senator BOSCHWITZ. May I make a comment, Mr. Chairman. I am sorry to interrupt the witness though. Our time is evaporating.

Mr. BLOUNT. I understand that, Senator.

Senator BOSCHWITZ. I have to give a little talk here at 12:45, so I am going to have to leave, and I wanted to hear Mr. Greenstein, who I would hope would put some of this into perspective and perhaps summarize it a little bit. But I must tell you when I made my remarks earlier about the 20 percent, and so forth, 20 percent or whatever, that I did not have an awareness of the exact composition. At least as you expressed it, I have an awareness of what goes into it, but not in the way that you—what is your first name?

Mr. WILLIAMS. Terry.

Senator BOSCHWITZ. Terry. Why does it say Joseph here?

Ms. CLARKE. We have all asked that.

Mr. BLOUNT. He does not know who he is, Senator. [Laughter.]

Senator BOSCHWITZ. In any case, I think, Mr. Chairman, that some of these statistics give us some very fertile field perhaps for pursuing things a little bit with our staff or ourselves on why the administrative costs vary so greatly from State to State, and why the food costs vary, and I am not entirely convinced about the differences between Iowa and Missouri, or Minnesota and Iowa for that matter.

And I also think we ought to take a little look at the cost of infant formula. I think that it is very highly regulated, and it may be unfair to compare infant formula costs to other food costs, and it may be fairer to compare it to medical or pharmaceutical type costs which have risen at least as much as the infant formula itself. But it is interesting testimony, more in the sense that it opens up our minds for what is happening, and perhaps we ought to take a little greater indepth look. But I hope, and I guess we ought to go forward.

Senator HARKIN. I agree. Are you about through, Mr. Blount?

Mr. BLOUNT. I will be happy to stop anytime, Senator. You have just referred to the Missouri study on Medicaid awhile ago. May I speak just about 2 minutes to that? Again, one of the things that I am very much concerned about and have been from the beginning, is the program cost effective or I do not want to be any part of it basically if it is not good management. So on my own initiative, I commissioned some studies in the Missouri program in 1980 and had it done again in 1982, and what we discovered in our study, which was widely recognized as a very credible study, is that for every dollar that was spent during the mother's pregnancy period that we were able to save 83 cents during the first 30 days by reducing the Medicaid reimbursement for care to the newborn of that pregnancy.

Now the actual billing was $1.42. The second study that we did for 1982, Missouri had actually changed the way it reimbursed the Medicaid Program. And, so, our researchers in doing the study found that the payment at that particular time was 49 cents for every dollar spent, but that reduction, they concluded, as they went back and studied the data, was because Missouri ceased to pay for some of the same type service they had through the austerity. So, when they looked at the total billing, the billing during the second study was $1.28 as compared to $1.42. So there was not a significant difference as far as the studies are concerned.

The reason for that, that both, well, really four studies finally concluded, was that WIC does reduce the incident of low birth weight which does increase mean birth weight and so there were fewer days in neonatal intensive care, and you do have a very real concrete savings.

And so when you are talking about increasing WIC funding, I think you have got to look that in the eye of also reducing Federal funding through Medicaid. I simply share that with you in closing. Thank you very much.

Senator HARKIN. Thank you very much, Mr. Blount.

[The prepared statement of Mr. Blount, with attachments, follow:]

UNITED STATES SENATE
SENATE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON NUTRITION AND INVESTIGATIONS

HEARING ON THE SPECIAL SUPPLEMENTAL FOOD PROGRAM
FOR WOMEN, INFANTS AND CHILDREN

JUNE 11, 1987

TESTIMONY PRESENTED BY
C. RICHARD BLOUNT
CHIEF, MISSOURI STATE WIC PROGRAM
CHAIRMAN, TASK FORCE ON INFANT FORMULA COSTS
NATIONAL ASSOCIATION OF WIC DIRECTORS

Mr. Chairman. Senators.

My name is C. Richard Blount.

I have been state director of the Missouri WIC Program since 1976.

I am the immediate past-president of the National Association of WIC Directors (NAWD).

During the past year I have been privileged to serve as
chairman of the NAWD Task Force on Infant Formula Cost.

I am honored by your invitation to appear before this committee today.

The Special Supplemental Food Program for Women, Infants and Children (WIC)
is a proven cost-effective, humane program.

Among other benefits,
it has a documented, positive effect on the outcome of pregnancies
producing a favorable cost-benefit ratio,
as well as healthier children.

Such success has not been accidental --
but by intent.

Its success has affirmed the wisdom of Congress' rationale
in establishing WIC as a major preventive health program.

I believe it, also, affirms the efforts of state agencies
to manage the program responsibly.

It was my privilege in the spring of 1984 to present
the new National Association of WIC Directors' first formal "STATEMENT OF CONCERNS"
before the then Senate Subcommittee on Nutrition.

At that time, on behalf of the Association,
I committed ourselves, as state directors,

> to responsibly manage the Program and safeguard the accountability of Federal Funds in order to provide maximum benefits to those women, infants and children who are at nutrition risk in our country."

To fulfill our commitment

we took action and became full partners with USDA-FNS in developing

a national program of "FOCUS ON MANAGEMENT"

defining 41 standards of practice

to promote high quality program management.

Many states have gone beyond the basic standards

sharpening their "FOCUS ON EXCELLENCE."

There are numerous evidences of innovative and effective initiatives

taken by state agencies to control cost in order to increase

the participation of women, infants and children.

States have sought and found

the right way to do the right thing

without coercion other than their own desire

to meaningfully contribute to the nationally acclaimed success

of the WIC Program.

However, in spite of state agencies' best efforts,

they have watched the total food cost per person increase dramatically;

significantly shrinking the number of persons that could be served

with the same dollars.

In 1980, the average cost of the WIC food package in Missouri was $26 per month.

Today, the same package costs $37,

an increase of 42.3 percent.

As directors, we are vitally concerned about such price increases

which have been remarkably greater, sometimes double,
the national inflation rate.
Though we are concerned about the cost of the total food package,
including all items,
it is natural that we would look first at the infant formula component.
Infant formula represents about 30 percent of our food costs.
The WIC Program will purchase approximately $400 million worth
of infant formula this year;
an amount equal to about one-third of the national sales.
Over the past six fiscal years, infant formula prices have risen more than 60 percent
while the overall cost-of-living has risen just 37 percent
and grocery store prices have risen 23 percent.
Thus, infant formula price rate increases have risen almost three times
the rate of grocery items generally.

As the price of formula has increased over the years,
a greater proportion of WIC dollars has been spent on infant formula.
As directors we have not sought
nor do we desire an adversial role with the infant formlula companies.
- What we seek, as responsible managers,
are ways to use most effectively, available funds,
while challenging any erosion of our cost-benefit ratio.
We believe we must be prudent consumers as we manage purchases
utilizing WIC dollars.
During the last year I served as chairman of the NAWD Task Force on Infant Formula Costs.
The task force appointed by the Association's president, Terry Williams
and the executive committee,

was commissioned to develop background information
and to formulate possible options as to how state agencies could
best manage the purchasing of infant formula
and all other WIC supplemental foods,
maximizing food grant monies,
to serve effectively the gretest number of clients.
The task force sought dialogue with the infant formula companies,
with the American Academy of Pediatrics
advocacy groups and peers within the Association.
It conducted its own study of the market.
The average price of a 13-ounce can of concentrated iron-fortified formula
purchased through the retail market was $1.40.
In states with home delivery or direct distribution systems,
the cost of formula was generally much lower,
ranging from $ .47 a can to $ .95 a can.
Mississippi, the only state with a direct distribution system,
pays about $ .47 a can for its WIC Program purchases.
In Vermont and parts of Ohio, infant formula is currently purchased
through competitive bidding for the home delivery systems
for $ .52 to $ .95 a can.
These costs include storage and distribution cost.
In addition USDA-FNS purchased infant formula for the
Commodity Supplemental Food Program (CSFP) through competitive bidding
for $ .66 a can for the first six months of FY 87.
Such savings through competitive bidding stimulated the task force
while considering competitive bidding
to also look for other possible cost-reduction options.
In presenting its report to NAWD
the task force suggested five options for individual state's consideration

in reducing the cost of its WIC food package; namely,

1. Government purchase for distribution.
2. Competitive bidding for sole source.
3. Free-market rebates.
4. Manufacturers' price reductions.
5. Direct formula donations from the manufacturers.

The task force suggested a criteria by which each option might be objectively assessed:

1. Meets the special formula needs of clients as well as general need.
2. Client convenience and acceptability.
3. Administrative feasibility.
4. Cost-effectiveness.
5. Produces greatest relative savings.
6. Generates program income that can be identified validating claim for additional administrative cost.
7. Accountability for monitoring and auditing.
8. WIC community acceptability.

During the period of the study, USDA-FNS took the position

that the potential for serving additional participants

makes these approaches of the states worthy of testing in one or more states.

The American Academy of Pediatrics likewise supported the efforts of the states

to serve more participants through reduction in infant formula costs.

The task force addressed two major issues.

It believes it brought to the greater WIC community's awareness

valid options as to how a state could reduce the cost of its food package,

the first major issue.

The second major issue is yet unresolved.

It is the unanswered question as to how a state agency can serve its expanded caseload

gained through food cost reductions

unless it is permitted to utilize its food savings

based on the same food-cost/operations-cost ratio as its base grant,

approximately 80/20.

You will hear testimony today from two states who face this critical question

and await a solution that they might capitalize on their

potentially substantial savings permitting them

to serve thousands of additional participants.

Without proper resolution of the problem
their best efforts of sound managment could conceivably fail.
The testifying states, as well as others, plus NAWD as a body
have requested USDA-FNS to grant such utilization of savings.
USDA-FNS's response has been that they do not have that authority
under the present statutes.
If that be the case, then I appeal to this committee and the Congress
to resolve the dilemma by authorizing and directing USDA-FNS
to allow for such utilization of savings immediately.
I began my testimony by stating
that WIC has been documented to be cost-effective.
May I briefly share a bit of that documentation.
As director of the Missouri WIC Program, I commissioned two statewide studies
of the FY 1980 Program.
One study was to determine the difference in the outcome of WIC pregnancies
as compared to non-WIC pregnancies.
The second study was to determine the cost-effectiveness of the Program.
Both studies were published and received national acclaim
by other evaluators and the GAO evaluation of WIC studies.
Both studies documented significant, positive outcomes of pregnancy.
The cost-effective study based on Medicaid reimbursements during the first thirty days
after delivery
documented that $ .83 was saved in Medicaid payments alone
during that first thirty days after pregnancy
for every dollar spent on the mother's participation in WIC
during her pregnancy.
The cost-benefit ratio was even higher, 1.42:1, based on Medicaid billings.
Thus, a dollar increase in WIC funding would be off-set by an $ .83 savings
in Medicaid costs immediately after birth

without considering the even greater savings from reduced chronic
or catastrophic costs
resulting from unattended nutritionally related problems of pregnancy.
I later commissioned replicas of the 1980 studies based on 1982 data
to further determine that credibility of the previous findings.
I am pleased to report that the latter studies basically affirmed the first studies
providing even more definitive documentation
that the cost-benefit ratio, the savings,
were related to improved birthweight distribution;
namely, fewer incidents of low birthweights and an increse in mean birthweight
reducing necessary hospitalization in neonatal intensive care units.
Both the reduction in the incidents of low birthweights
and the increase in mean birthweight
were documented as the improved outcomes of WIC pregnancies.
We are always aware of the necessary tension between program expansion
and budget deficits.
However, I believe that as directors we would be irresponsible
if we failed to emphasize the great need to further expand the program
which today serves only about 40 percent of the estimated need.
I believe that the Missouri study, as well as others,
documents that WIC is and will continue to be a positive factor
in controlling future deficits.
WIC has a positive effect in preventing more costly long-term medical and health related costs.
It not only makes a significant savings in Medicaid now --
It will reduce future escalating medical costs
related to otherwise nutritional neglect today.
In closing, I want to express my personal appreciation for the notable positive leadership of yourself, Sir,

and the membership of your committee in conducting this hearing

to increase the awareness of the Senate, the Congress and the national community

as to the WIC Program, its successes and its yet unmet needs.

I am confident that you will contribute significantly through legislative action

to ensure its continued success.

In grateful response, I recommit myself to provide quality management worthy of

the Program's great contribution to women, infants an children

nutritionally at risk in our country.

I would be happy to respond to any questions.

Thank you for your consideration of my testimony.

MISSOURI DEPARTMENT OF HEALTH

JOHN ASHCROFT
GOVERNOR

ROBERT HARMON, M.D.
DIRECTOR

July 22, 1987

Senator Christopher (Kit) Bond
SR-293 Russell Senate Office Building
Washington, D.C. 20510-2503

Dear Senator Bond:

Thank you for your splendid support of the WIC Program during the recent Senate Agriculture Committee markup session. Caroline Hunter first notified me of your position on the 80/20 vs. the 80/10-10 component in the S.305 bill. Your affirmation of trust in the quality of state management is appreciated. You may be assured that the Missouri WIC Program will continue its striving for excellence.

I have attached a graph highlighting how Missouri utilizes its WIC operational funds as a part of the total grant. Direct client benefit services, based on the Department of Health and Human Services definitions for the Bureau of Common Reporting, accounted for 82.5% of all the operational monies expended during fiscal year 1986.

If you consider the total grant for food and operations, only 3.29% was used for administrative or non-direct service costs. Thus, WIC has one of the lowest administrative costs recognizing that most of the operational costs are for personnel services providing direct benefits to the clients through health assessments and nutrition education. As indicated by the graph, 76.2% of all costs were personnel and 86.5% of personnel costs were incurred at the local agency level which works directly with the clients.

Within a few days of the committee's action, I was pleased to hear from some of my colleagues outside of Missouri expressing their own appreciation for the new leadership of Missouri's junior senator on the Agriculture Committee. Needless to say, I was proud to acknowledge their gratitude in your behalf.

I look forward to an on-going, cooperative and supportive working relationship. Caroline and I have worked together closely during these initial months developing an effective staff relationship. I commend her quick grasp of and sensitive response to program concerns.

The Missouri WIC management team is committed to perform at a high level of quality. We want you to be as proud of the Missouri WIC Program as we are of its junior senator's leadership in Washington.

Sincerely,

Dick Blount

C. Richard Blount
Missouri Deptartment of Health
WIC Chief

CRB:sd

Telephone: (314) 751-6400 P. O. Box 570 Jefferson City, MO 65102
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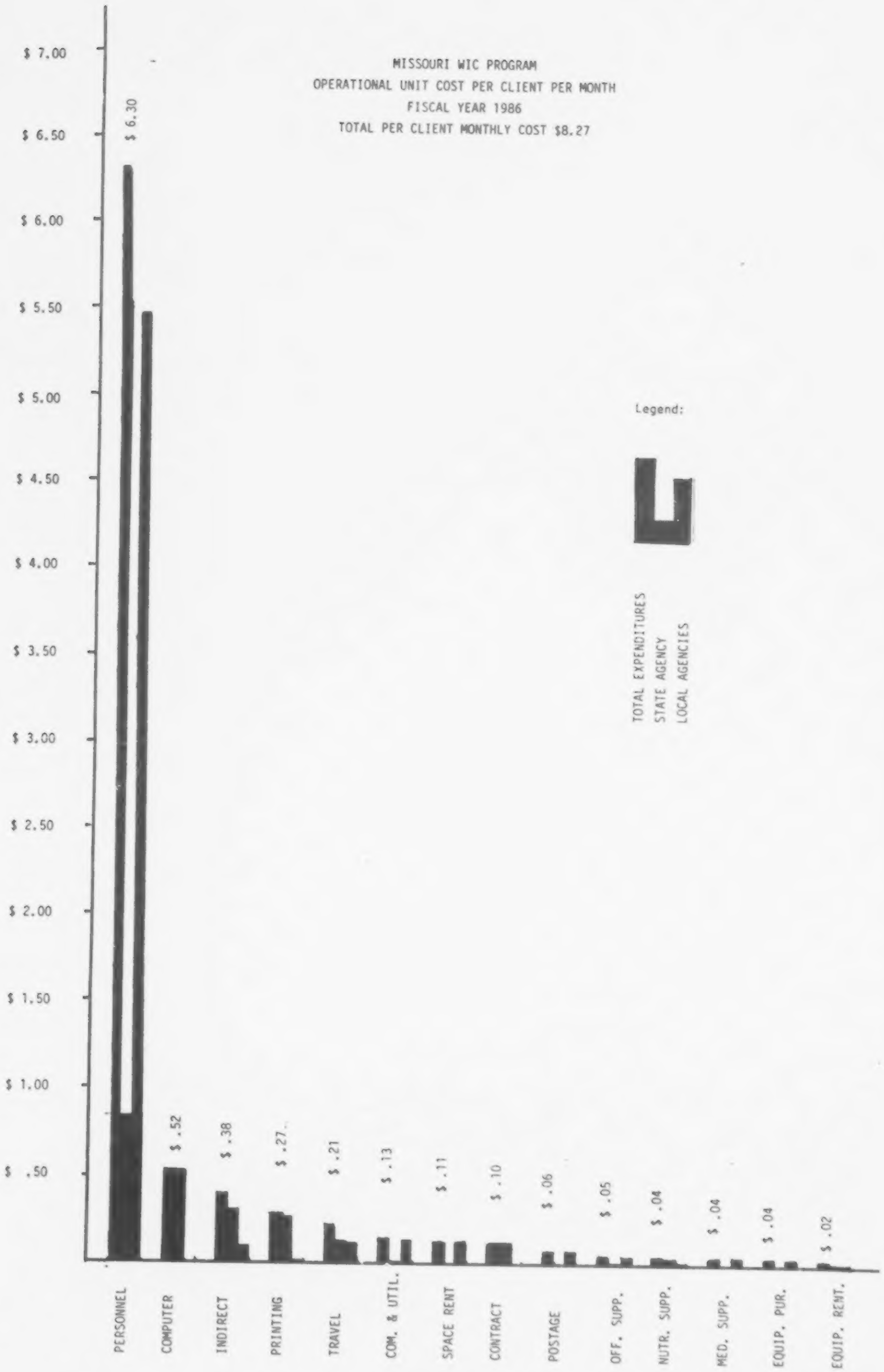
MISSOURI WIC PROGRAM
OPERATIONAL UNIT COST PER CLIENT PER MONTH
FISCAL YEAR 1986
TOTAL PER CLIENT MONTHLY COST $8.27
$ 7.00
$ 6.50
$ 6.00
$ 5.50
$ 5.00
$ 4.50
$ 4.00
$ 3.50
$ 3.00
$ 2.50
$ 2.00
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$ .38
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$ .02
PERSONNEL
COMPUTER
INDIRECT
PRINTING
TRAVEL
COM. & UTIL.
SPACE RENT
CONTRACT
POSTAGE
OFF. SUPP.
NUTR. SUPP.
MED. SUPP.
EQUIP. PUR.
EQUIP. RENT.
Legend:
TOTAL EXPENDITURES
STATE AGENCY
LOCAL AGENCIES

Senator HARKIN. Now we will hear from Manny Martins, of Tennessee.

STATEMENT OF MANNY MARTINS, ASSISTANT COMMISSIONER, TENNESSEE DEPARTMENT OF HEALTH AND ENVIRONMENT, NASHVILLE, TN

Mr. MARTINS. Thank you, Mr. Chairman. I am Manny Martins, Assistant Commissioner, the Tennessee Department of Health and Environment, and I will be brief. I understand the time constraints.

One of the things I would like to say is that in Tennessee, our infant mortality rate reduced from 1980 of 13.4 to 11.3, in 1985, the lowest in reportable history in Tennessee, still not quite below the national average, largely because of programs such as WIC and other maternal child health programs.

Senator HARKIN. What were those figures again? They are not in your testimony.

Mr. MARTINS. In 1980, 13.4 per 1,000 live births. In 1985, 11.3 per 1,000 of live births.

Senator HARKIN. That is significant.

Mr. MARTINS. Very significant. We in Tennessee really feel strongly about the WIC Program, and we did implement a competitive bid process, and we feel like at this point in time we are now being penalized because of the competitive bid process that we entered into, and I will show you in a minute how Tennessee can receive less administrative money as a result of the administrative process that we went through.

I might add that there was a great deal of pressure from many, many areas not to go competitive bid process and remain status quo in Tennessee but we overcame that and went ahead with it.

Senator HARKIN. Where did you say? I am sorry.

Mr. MARTINS. Many different areas. I think there was concern of the infant formula counsel. There was concern on the part of USDA. At first we really had to get in there and convince USDA that what we were doing was appropriate, and we had to follow their mechanisms and prove that this was legal under the current situation of law and regulation.

We overcame all that. We were doing the right thing. We are convinced we did the right thing in Tennessee, and we are convinced that we can save $4 million a year as a result of that. We are convinced in Tennessee that we can serve another 10,000 recipients with that money. We are roughly serving 50 percent of our eligibles now, and we need to do that badly. The problem is this: there is a 95 percent rule which exists in the WIC Program, and it says that if you do not spend 95 percent of your allocated dollars you are penalized. Those moneys are taken away even if you forget—to show you the ludicrousness of this—even if you forget the 80/20. Just put it out of the picture for now. If, in fact, we have an allocation of $29 million in food costs today and we are able to spend 20 percent of that on administrative costs, and suddenly as a result of saving $4 million, that reduces, you can see that 20 percent of the lower figure is going to be what we are allowed in administrative costs.

So we are actually going to be penalized for saving money in the administrative cost area.

Senator HARKIN. Wait a minute. You say you receive $29 million?

Mr. MARTINS. That is what we get now.

Senator HARKIN. You get 20 percent allowed for administrative costs, right?

Mr. MARTINS. That is right.

Senator HARKIN. If you save $4 million, then that leaves $25 million. So, you get 20 percent of that.

Mr. MARTINS. Except if we save the $4 million that is correct. We will not be able to spend that total $29 million on food services because we have saved the money. We will only be able to spend $25 million without additional administrative costs.

Senator BOSCHWITZ. I did not understand that. Why can you not spend——

Mr. MARTINS. Because we cannot serve additional recipients without additional administrative costs. There are some built-in efficiencies, no doubt about it. But if our costs today, which is we project $8.25 per recipient, we cannot reduce that cost by increasing 10,000 recipients in the State of Tennessee and serve them for $8.25. We just cannot do that.

Now the bottom line is this. We now receive $29 billion in food dollars, $29 million. A big part of that is going into profits. We have saved and are getting a rebate of 48 cents per can. We are going to save $4 million. If we are unable to expand caseload with that $4 million by increasing administrative costs, then in essence, 2 years from now we are going to be spending $25 million, or whatever increase we receive, and only be able to receive 20 percent of that figure for the administrative cost.

Thus, as a result of everything that we have done in the State we are, in fact, being penalized. I think that is a real important point to make. So I am here to make two pleas to you.

Senator BOSCHWITZ. I might change my viewpoint.

Senator HARKIN. I never thought about this. Nobody ever brought this up before.

Senator BOSCHWITZ. Well, that is why we have hearings, I suppose. [Laughter.]

Things trickle through to Iowa.

Senator HARKIN. Yes, they trickle down here.

Mr. MARTINS. I am here to make two pleas to you. And that is to allow the State of Tennessee to use part of the savings to pay for administrative costs in the caseload if the administrative costs are reasonable and justified. We are not asking for you to just throw it to us. We are asking for those administrative costs that are reasonable and justified, and then allow the State of Tennessee to have the 95 percent performance standard suspended. If that is not suspended, we are going to lose money.

Now, I would also like to briefly tell you what the administrative costs are going into, and you have heard earlier: health screening, nutrition counseling, voucher issuance, recordkeeping, data processing, banking services, vendor monitoring. We feel like in Tennessee we have a strong, good quality WIC Program. We have seen a difference in outcome measures, infant mortality I reported earlier. We are starting to see low birth weight differences.

We have done studies to show that participants in the WIC Program are, in fact, improved in their infant mortality and low birth weight outcome. There is no question about that, and we are very acutely aware of the 20 percent statutory requirement. But we believe, we strongly believe that USDA can find the flexibility within their system, within the law that exists right now, to allow for us to have additional administrative costs to serve these additional people.

I would also say that other States looking at Tennessee and looking at the cost saving measures that we have implemented would be a little bit foolish to go into those measures and receive a penalty and not be able to use those funds to serve additional people, but in fact, in the logical result of the implementation process wind up with less administrative costs. That is all I have to say.

Senator BOSCHWITZ. May I ask a question? Would you send me something of greater detail of how the $8.25 is broken down in your State?

Mr. MARTINS. Certainly.

Senator BOSCHWITZ. This is good testimony.

[The prepared statement of Mr. Martins, with a requested attachment, follows:]

Testimony Before Senate Nutrition Committee
June 11, 1987

Mr. Chairman, members of the committee, I am Manny Martins, Assistant Commissioner, Tennessee Department of Health and Environment, and I appreciate the opportunity to present testimony. Tennessee serves 75,000 WIC participants. We consider the WIC Program a key entry point into our state Maternal and Child Health Program. It has a very positive impact on the health of mothers and children of Tennessee.

Since June 1, 1987, we have been buying infant formula through a competitive bid for our 23,000 infants. This exciting cost-saving project took three years of hard work by our staff to implement. Tennessee has received no additional funding for the project. Through a contract with Wyeth Laboratories, we will receive a 48¢ per can price enhancement for formula. This could allow us to serve an additional 8,000-10,000 participants per year with the annual savings of approximately $4.0 million. I have two major points to make today regarding the situation when a state goes all out and aggressively seeks cost saving measures in spite of a huge amount of pressure to maintain the status quo.

1. The state needs to be able to use a part of the savings to pay for the administrative cost of the increased caseload if those costs are reasonable and justified.
2. The state needs to have the 95% performance standard suspended to avoid the loss of administrative money.

Other states are extremely interested in the competitive bid process for WIC foods. Their major interest is whether or not some of the savings can be used to pay administrative costs to serve more people. I have come to ask your help to continue an incentive for these cost saving measures by allowing the savings to cover the increased workload. To maintain quality in our WIC Program, we must have funds to pay for health screening, nutrition counseling, voucher issuance and record keeping, data processing, banking services, and vendor monitoring. Thus far, USDA has said we must support the growing caseload out of our current administrative grant. This would force Tennessee to compromise quality in program delivery, or to abandon this program, due to USDA's disapproval of our using some of the rebate to cover the extra administrative costs.

We are aware of the statutory requirement that no more than 20 percent of the funds available to the WIC Program go for administrative expenses. However, given the circumstances, we strongly believe USDA has the flexibility to permit Tennessee to proceed in the short run. We are continuing to negotiate with USDA for administrative funds to serve the growing caseload, but so far have received no encouraging decision.

In summary, Tennessee and other states need incentives to implement programs to make large savings in food costs. A simple effective solution is for USDA to:

1. Suspend the 95% rule.
2. Allow part of the savings to be used for administrative costs.

MM/LF/sl NS#21

TENNESSEE DEPARTMENT OF HEALTH AND ENVIRONMENT
BUREAU OF HEALTH SERVICES
ONE HUNDRED 9TH AVENUE, NORTH
NASHVILLE, TENNESSEE 37219-5405

July 7, 1987

The Honorable Rudy Boschwitz
U.S. Senate
506 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Boschwitz:

During testimony before the Senate Nutrition Sub-Committee on June 11, 1987, I was asked to report how the Tennessee WIC Program spent the $8.25 cost per person in terms of direct services to participants.

Here is the break-down:

	Cost	Percent
Nutrition education	$ 2.23	27.0%
Medical exams	1.19	14.4
Voucher issuance and record keeping	1.80	21.8
Data system, forms, etc.	.60	7.3
Administration	2.43	29.5
Total	$ 8.25	100.0%

Attached is a graph which visually depicts the breakout of the $8.25 per person cost.

I was pleased to testify before the sub-committee. We appreciate your interest in the competitive bid process. Please call me if you have any questions at 615-741-7305.

Sincerely,

Manny Martins

Manny Martins
Assistant Commissioner

MM/C2077188

Senator **Harkin**. Now we will hear from Betsy Clarke, Oregon WIC Director.

STATEMENT OF BETSY CLARKE, OREGON WIC DIRECTOR, PORTLAND, OR

Ms. **Clarke**. I want to thank you for the opportunity of being here today. I appreciate it a lot.

I have had a longstanding concern about the escalation in the cost of certain foods, especially the cost of infant formula. And in fact, in 1985 as vice president of the National Association of WIC Directors I visited with each of the three major manufacturers of infant formula. I talked to them about this specific issue.

You have already heard testimony about how much the market for infant formula has been affected by the WIC Program, so basically I will not go over that. I think the bottom line to that is that overall the prices for infant formula have almost tripled since the WIC Program started. Infant formula companies use some very high cost marketing kinds of techniques and that the market is controlled by three companies, all of which escalate their prices pretty much in sync. And I have some overall concerns about that.

Senator **Boschwitz**. But to some degree that is because it is quite a highly regulated—it is not easy to get into the business if you regulate it enough, I would imagine.

Ms. **Clarke**. That is true, and I have asked for some detailed information from at least one of the companies, and they were unwilling to supply it in terms of exactly what those costs were and so my suspicion continues. I wrote to them specifically asking them about how much it really costs to implement the Infant Formula Act and its amendments. And that information was not supplied. I know that the gross for this particular company has increased by $200 million since that act was implemented. And I am just very curious how much of it is really connected to the Infant Formula Act.

Senator **Harkin**. The Infant Formula Act——

Ms. **Clarke**. That is the act that regulates the infant formula industry.

Senator **Boschwitz**. Well, if it is just evaporated milk with vitamins, we ought to take a little look at it. I do not know.

Ms. **Clarke**. Right. Just a couple of points, and I will summarize my testimony. In Oregon we have received information that would really collaborate the testimony in terms of the need for the program. We are currently serving about 10,000 infants and an additional 15,400 infants were reported to be in families applying for emergency food. So we know that those infants had at least some food needs.

Senator **Boschwitz**. In the families of——

Ms. **Clarke**. Applying for emergency food. And only about 5 percent of those were in the WIC Program. So that looks to me like there is a lot of infants in Oregon that also need additional food. The Oregon WIC Program plans to be the next State to implement a bid like Tennessee. We have completed most of the work necessary, including a lot of education and dialog with the community about infant formula purchasing and have received endorsements from the Oregon Pediatric Society and other key groups.

Our State plan is ready to be submitted and bids will be requested soon. As much as we would like to serve more babies on the program, we would be unable to do so without funds for direct services for those clients such as the costs that have been mentioned. One of the things that really has not been brought up is when the WIC Program was started, most of the infants that were served in the program were already being served by the Maternal and Child Health Program. And since the WIC Program has grown so much, that is no longer the case. We are not receiving—you know, WIC was really set up and funded to be an adjunct to Public Health. And currently because maternal and child health funds have been reduced and the WIC Program has grown, we have to pick up much more of our own costs on child health care than we did at the time that the law was passed.

Also, the point on Medicaid that I wanted to make, and that is that most, the vast majority of WIC infants are not Medicaid eligible, at least in Oregon. So those costs all have to be borne by the WIC Program.

At this point, it is simply not reasonable to ask States to stretch resources any further. We heard testimony on the part of USDA that they believe that participation is not being limited by administrative costs, and I would say that in my opinion participation is primarily limited by administrative costs.

Senator Boschwitz. Why did you say it is not reasonable for the States to drop a little money into the program? I see that Minnesota did recently, $1 million or so, but $1 million is very big number, I suppose.

Ms. Clarke. Right. Well, it depends on the State's resources. In Oregon we have had a very depressed economy over a period of time, and we have also had local contributions and I will testify about that. That we are now having local county governments pulling out of the WIC Program because they can no longer afford to subsidize the program with local funds.

In fact, just last week one of our larger WIC agencies announced that they would be giving up their WIC grant because they could no longer afford to put the $100,000 additional local funds into the program that are necessary to run a reasonably good quality program.

You have already heard testimony about how the inflation rate for food is far surpassed by wage increases, and the net result, at least for us in Oregon, has been a reduction in terms of inflation adjusted dollars, which means more patients to serve per staff person, more staff turnover, and poorer quality services.

Basically I would like to—Mr. Bode seems very satisfied that things are, that the issues in this have more to do with efficiency. I am really not quite so sure. I would like to invite him to come to Oregon. We have some jobs where the pay is at a level where most of the families still qualify for food stamps. Those people work harder than they do in any other similar job in the health clinic. And those people are working for the WIC Program. They process an awful lot of people per week, far more than are being seen in other programs. It is just simply not comparable.

I am here today along with my colleagues to ask Congress to take some steps to deal with the situation. We are requesting that legislation be written to take away the disincentives to competitive bidding in WIC, allow States to lose up to 20 percent of the savings from competitive bids for the cost of direct services for serving more people.

And, here, I would like to point out that overall under our proposal, the ratio would still remain 80/20. There was some discussion about that earlier. We are asking for indexing of the 80/20 division between food funds and administration so that we have a fair shot at providing good services when there is a significant difference between food inflation and other costs.

I have been told by high ranking infant formula company officials that infant formula companies can produce infant formula for the current bid price. This is the bid price in Mississippi of 53 cents per can and still make a profit. The WIC Program could and should be receiving the benefit of these prices. Based on the bid in Tennessee, $100 million could be saved nationwide, and these savings could provide services to 300,000 more infants and children.

Those figures would be doubled if we could achieve prices like they have in Mississippi. Vastly more people could be served, and these savings are very significant savings. It is not an amount that we could serve without additional direct service cost.

I would like to summarize with a quote from Congressman Ron Wyden of Oregon who has been so supportive of our efforts on this issue. In his letter to Secretary Lyng, he stated: "Mr. Secretary, this is just the type of program we need. It encourages the manufacturers of infant formula to compete for government bids. It permits federal and state governments to serve more needy babies for the same amount of money. Through efficiency in government contracting, all Americans—taxpayers and needy children—will benefit." This is really a very simple matter where good business practices like bidding, saving tax dollars through programs that prevent expensive health problems and caring for babies who do not have food all suggest the same solution. Thank you.

[The prepared statement of Ms. Clarke follows:]

Testimony before the Senate Agriculture Committee
Subcommittee on Nutrition and Investigation
on behalf of the National Association of WIC Directors

June 11, 1987

Senator Harkin, members of the committee, I am Betsy Clarke, Oregon WIC Director. I appreciate the invitation to be here today to talk about our situation and competitive bid purchasing of foods, especially infant formula.

I have had a long standing concern about the escalation in the cost of certain foods, especially infant formula and the need to serve more people in the WIC Program. In 1985 as Vice President of the National Association of WIC Directors I visited each of the major manufacturers of infant formula. I suggested that based on the volume of purchasing done by WIC and the rapid rise in prices, some sort of discount was in order.

The market for infant formula has been strongly affected by the WIC Program. WIC buys 1/4 to 1/3 of all infant formula sold in this country and poor women with less education are more likely to choose formula over breastfeeding. The price of infant formula increased by 60% from FY 80 to FY 87 while food prices in grocery stores rose only 23%. Overall, prices on infant formula have almost tripled since the WIC Program started. These price increases have not been justified by infant formula companies to my satisfaction.

In April we held a hearing in Oregon about infant formula purchasing in the WIC Program. We heard from many different people about the need for us to make WIC available to more babies. Oregon Food Share recently completed a survey which showed that even though WIC services are now being provided to about 10,000 infants per month, an additional 15,400 infants under 1 year of age are in families applying for emergency food. The case worker in one of our migrant programs testified that some Oregon babies are fed kool aid in bottles when the family can't afford infant formula. Our hearings officer summarized the situation by saying that the reasons in favor of competitive bid purchasing paled in comparison to those against the change. We are committed to seeing that babies have enough food in Oregon.

The Oregon WIC Program plans to be the next state to implement a bid like Tennessee. We have completed most of the work necessary including much education and dialogue with the community about infant formula purchasing. We received endorsements of our proposal from the Oregon Pediatric Society, Oregon Public Health Association and other key groups. The state plan revision is ready to be submitted and bids will be requested soon.

As much as we want to serve more babies in the Program, we would be unable to do so without funds for direct services for those clients such as the costs of certification, nutrition assessment, nutrition education and referral as mandated by law. It is simply not reasonable to ask states to stretch resources any further.

The WIC Program has struggled over the past several years to maintain a reasonable quality of service despite the very real limitations of administrative costs tied to food costs in the law. The 2-3% inflation rate of food is far surpassed by 6% wage increases. The net result has been a reduction in terms of inflation adjusted dollars each year which means more patients to serve per staff person, more staff turnover and poorer quality services. Last week one of our larger WIC agencies announced that they would be giving up their WIC grant because they could no longer afford the $100,000 additional local funds required to run a reasonably good quality program.

I am here today along with my colleagues to ask Congress to take some steps to deal with this situation. We are requesting that legislation be written to take away the disincentives to competitive bidding in WIC. Allow states to use up to 20% of the savings from competitive bidding for the costs of direct services for serving more people. We are asking for indexing of the 80/20 division between food funds and administration so that we have a fair shot at providing good service when there is a significant difference between food inflation and other costs.

I have been told by high ranking infant formula company officials that infant formula companies can produce infant formula for the current bid price of $.53 per can and make a reasonable profit. The WIC Program could and should be receiving the benefit of these prices. Based on the bid in Tennessee $100,000,000 could be saved nationwide and those savings could provide services to 300,000 more infants and children.

I would like to summarize with a quote from Congressman Ron Wyden of Oregon who has been so supportive of our efforts on this issue. In his letter supporting us on this issue to Secretary Lyng he wrote " Mr. Secretary, this is just the type to program we need. It encourages the manufacturers of infant formula to compete for government bids. It permits the federal and state governments to serve more needy babies for the same amount of money. Through efficiency in government contracting, all Americans - taxpayers and needy children - will benefit." This is really a very simple matter where good business practices like bidding, saving tax dollars through programs that prevent expensive health problems and caring for babies who don't have food all suggest the same solution.

Thank you.

Senator HARKIN. Thank you all very much. I am sorry, but time is running out. I have a couple of questions I would like to ask the whole panel. First, I want to ask about breastfeeding in the WIC Program. Do I correctly understand that there is a special package for women who choose to breastfeed?

Mr. BLOUNT. True. That is true.

Senator HARKIN. That is true. You really got my attention when you said that the WIC Program purchases between one-fourth and one-third of all infant formula sold in America. As I mentioned, and maybe you heard earlier, for a long time I was the honorary chairman of INFACT. I really got into the whole issue of breastfeeding. I think the National Association of Pediatrics and doctors all over have said breastfeeding is the best. Obviously, there are cases when, for various reasons, a mother cannot breastfeed the child. But that is true of a very small number of cases Most mothers can breastfeed. Keep in mind, here we are talking about the universe that you serve—low income women. I assume many are not working, so they would seem to be ideal candidates for breastfeeding.

What I would like to know is, what are you doing, what do the States do, WIC counselors, to encourage women to breastfeed? If women are encouraged, why are they not breastfeeding? Do we see a trend toward or away from breastfeeding?

Mr. MARTINS. Sir, let me say something about Tennessee because we are very fortunate to have received a special SPRANS, programs of regional and national significance grant to, in fact, look at breastfeeding and encouraging mothers to breastfeed on the WIC Program.

It has just been funded, and we are in the process in the southwest area of the State in a four county area of actually intensifying our efforts in breastfeeding, and in particular, with WIC recipients through the special grant of regional and national significance.

Now the purpose of SPRANS is to provide demonstrations projects to enable you to demonstrate the value of a particular program that you are operating so that program may, in fact, be adopted on a broader scale. So we feel real good about having that funded, and it is something that we are working on, and will continue to work on, and it is an integral part of our WIC Program in Tennessee.

Mr. WILLIAMS. There are approximately 100,000 moms who are breastfeeding on the WIC Program. That is good.

Senator HARKIN. 100,000 out of how many that you serve?

Mr. WILLIAMS. There is approximately 500,000 pregnant women on the program at any one point in time. So certainly the percentage, in my own State of Wyoming, approximately one-half of the moms that deliver their babies nurse for at least the first several months. The large majority of the infant formula costs are associated with those moms, who, after nursing their baby, move on to using infant formula for the balance of the first year of life. There is also an increasing number——

Senator HARKIN. Why do they move off?

Mr. WILLIAMS. Because maybe they are picking up part-time employment later on.

Senator HARKIN. Sooner or later, mom will decide. But, at least for the first several months, there is no reason for that. You can breastfeed right up till the time the child goes on to——

Mr. WILLIAMS. And that is what we consider ideal, and that is what we advocate and support. Many of our high risk moms are very young mothers, who for a variety of reasons—maybe they are still in school, and the school system does not support or have the resources available to, well, just philosophically be supportive of this young teenage mom being able to actively——

Senator HARKIN. Would you say that WIC counselors aggressively counsel WIC mothers to breastfeed?

Mr. BLOUNT. Most assuredly.

Ms. CLARKE. Yes.

Mr. WILLIAMS. It is a priority for us. And we would like that percentage——

Senator HARKIN. I would like to find out why more mothers are not pursuing it then. I will have to look at that. I can understand if people are working and things like that.

Mr. MARTINS. That is the purpose of our project. One of the purposes of our project is to find out how we can enroll more women in the WIC Program and also to breastfeed.

Senator HARKIN. If you do encourage women to breastfeed, and you purchase less food, the administrative costs come down. What is the incentive for doing that? I did not mention that earlier in my question.

I want to hear Bob Greenstein. Secretary Bode talked about indexing. That is one of the things you want to index, and I understand your concern on that. But, in his testimony, he was saying that the amount of money available for WIC administration has increased from $153 million to $323 million in fiscal year 1986, an 111 percent increase. He says that with such generous administrative funding, we believe it is reasonable to expect some belt tightening. And, they are opposing any change in indexing. He also talks about economies of scale, and he said the States have been able to hire staff, start the programs, open clinics, and develop procedures for 20 cents on the dollar. He feels that they certainly should be able to add new participants to these existing well-established programs for 20 cents on the dollar. That sounds like flawless reasoning to me. What do you find wrong with that?

Mr. MARTINS. Well, let me suggest to you several reasons. One, the cost of administration increases greatly, but I would also grant you this. In Tennessee's case, we are dealing with 20 percent of the smaller number. Again, if our food cost is now $29 million, and it drops to $25 million, the 20 percent was predicated on $29 million. It is now being predicated on $25 million. I do not agree with the 20 percent.

But even if you throw the 20 percent, even if you buy the 20 percent logic, in Tennessee's case you are receiving any less.

Senator HARKIN. Yes, I understand that. Let us get back to indexing.

Mr. WILLIAMS. The 20 percent today is the same 20 percent as it was 6 years ago. These services, the six that I identified, what is happening in terms of the caseload, the increased number of participants, the fact that the personnel resources behind providing these direct services over the course of the last several years has been going up at twice the level of increase as the food aspect of the program. That is the dilemma. That is the hard rock we are sitting on.

And so, I do not, as I say, I do not want the caseload to reduce by one. If indexing were to reduce it by one, I would say forget it. But I think WIC directors will rise to the occasion, in terms of maintaining or increasing the number of participants, if we are allowed to maintain all the elements of the WIC Program: the supplemental tailored food, the education, and the access to health care.

Mr. BLOUNT. Senator, I want to piggyback on that. Yes, those figures look flawless. You have all of this extra million dollars and all this increase, but your participation has gone up. I think the only way you look at that realistically is look at unit costs. So if you are serving more people, you are still looking at a unit cost. You have to have an increase, and that is where the index, and as Terry was just speaking to, comes in.

Your cost of personnel and operations has grown more rapidly than your food costs. So if you are having a correlation between that and one grows at a less rate than the other, then you are falling behind all the time in your administrative costs.

And that same thing ties into the matter of the savings on food. If we saved enough money to serve 2,000 more people, our unit cost is not going to go down. So we have to have more money to serve those extra 2,000 people. It is a unit cost, so what is the big numbers, and look at unit cost, and I think you see the flaw yourself, Senator, very readily.

Mr. BACH. I have one comment I would like to add to that. Dick, it is rather pointless to talk about a 111 percent increase in administrative funding without looking at what percent increase in participation there is at the same time. Mr. Bode frequently used Iowa as an example of a low administrative cost State. He presumes that we have an efficient management, which is correct. But we also have operated at that level because that is the all the money we have gotten out of the funding formula, not because that is all we have needed. In Iowa, we have something like a 40 percent turnover rate in local agency staff because we burn them out. We run them all over the country trying to serve more people than they can humanly do.

We have things like an inadequate vendor monitoring system because we do not have the funds to replace our data system, and get it up to what I consider an acceptable level. So I am not sure in some respects that Iowa is the best example to use. In terms of good management, yes. In terms of cost, no.

Senator HARKIN. I was just looking at some figures here. If you compared 1981 to 1985, the total dollars spent, the total participation, in 1981 it cost us $419 per participant. In 1985, that figure was $476 per participant for 1 year. That represents an increase of about 10 percent, 11 percent maybe.

Mr. BACH. Is that for both food and administration?

Senator HARKIN. That is for the total cost. What you are saying, is, when you figure the cost of food, which went up 23 percent during that period of time, plus the cost of these services, which you say also went up, the cost to us per participant went up only about 11 percent.

Mr. WILLIAMS. The other element I would mention is we are talking about——

Senator HARKIN. The point is, we come full circle back to where we started. If we want to increase the program to serve more than 40 percent, which Mr. Bode said he wants to do, you just cannot do it on the same amount of money.

Ms. CLARKE. That is exactly right.

Mr. BLOUNT. May I answer directly, Senator? You asked awhile ago why Missouri does not get into competitive bid? It is because of what Betsy said. We cannot do it without the administrative costs. That is the same thing that Tennessee is saying. That is the same thing Oregon is going to say. We cannot serve 2,000 more people. We cannot serve 5,000 more people if we do not have some money to pay for the service, to do the health examination, to do the nutrition education. It is just that simple really.

Ms. CLARKE. Well, it is not only that, but there are some ways that costs actually go up when you reach a certain level. Most of our programs are in small county health facilities that were built a long time ago, and we are finding that after caseloads reach a certain point, we are being subsidized by rent and things like that because we are in these facilities. But when caseloads reach a certain point, then you need to be able to go out and get more space, and that means paying rent, and so in some ways the cost effectiveness, or the cost per person after you reach a certain level in certain situations actually go up.

Senator HARKIN. I am going to take a further look at this because I am obviously familiar with Iowa and what it does. I know the way we use our clinics for the WIC Program and it seems to me a very efficient way of doing it. I do not know if your States do it that way or not, but I would like to take a look, Mr. Williams, at what other States are doing. I know the way Iowa delivers its services through these clinics, the last clinic, I guess was at Ottumwa.

Mr. BACH. Right. That was a combined WIC and CH clinic.

Senator HARKIN. Yes, and where they put it all together, it was a very efficient operation. I would like to see if other States are doing that. I would like to ask all of you to send to the committee, to supplement the record, any information on the numbers of people on WIC waiting lists. Would you do that? I would like to know how many people you have on the waiting lists. Mr. Williams, would you do that? If you could get States to do it for a look at the Nation as a whole, I would like to use that information. These are people who have been deemed to be eligible, but cannot be served. I would like to know that figure. Thank you all very much, I appreciate it.

[The material can be found on page 87.]

Senator HARKIN. Last, to wrap it all up, Mr. Bob Greenstein of the Center on Budget and Policy Priorities. Mr. Braley, George, you have been listening to all this. I really wanted to have a chance to involve you in answering some of these questions, but time has run out. This has been a time of acquiring information with few questions. Certainly you have been taking notes on some of the things presented. If you could respond to some of the things that we have brought up in writing, that would be fine.

Mr. BRALEY. Be happy to, Senator. We will certainly work with your staff in getting a list of things that we agreed to provide.

Senator HARKIN. I would appreciate it, and I appreciate your staying. I had hoped to involve you in it, but our time has just gotten away. Thank you.

Mr. Greenstein, I apologize to you for holding you here for so long, but it has been very interesting, and this is something that I am deeply interested in as you know, and I just want to just get it all down on the record. And I appreciate your waiting so long. Please proceed.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC, ACCOMPANIED BY STEFAN HARVEY, WIC PROJECT DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Mr. Chairman, I appreciate the opportunity to be here today. As you may know, since the Center's inception, we have conducted an ongoing project on WIC. Here with me is Stefan Harvey who is the director of our WIC project, and has worked on WIC for 13 years, and I think is widely regarded in the WIC community as one of the most knowledgeable people in the country on WIC.

We hope to shed light on a number of WIC issues including the difference in State costs and competitive bidding, but there are a few other items we would like to touch on first. Stefan will handle that, and then I will cover the competitive bidding issue.

Ms. HARVEY. Senator Harkin, last year as you may recall, the Department of Agriculture released the findings of a multiyear, multimillion dollar study on the health effects of the WIC Program. The findings are included in our prepared statement, and I would like to briefly touch on some of the most significant findings.

Number one, WIC contributed to a reduction of 20 to 33⅓ percent in the reduction of late fetal deaths, obviously a significant finding.

WIC also, it was found, increased the head size of infants whose mothers participated in WIC during pregnancy. This is important because head size reflects brain growth. It was also found that women who participated in WIC had longer pregnancies leading to fewer premature births. Another significant finding was that women who participated in WIC sought prenatal care earlier.

Our colleagues from the States have commented on the significance of women receiving prenatal care earlier. Finally, with regard to children, there was some indication that WIC participation also appears to lead to better cognitive performance. Unfortunately despite these significant findings, all the women and children who are in need of WIC are unable to receive benefits. The Department itself has said that only two-fifths of those who are eligible are, in fact, being served.

We did a survey recently at the Center and found people who are in need of the program both for preventive reasons and remedial reasons are currently shut out of the program due to inadequate funding.

As I have commented, our prepared testimony elaborates on these points. Thank you.

Senator HARKIN. Thank you.

Mr. GREENSTEIN. Mr. Chairman, as you know in recent years, Congress has provided some increases in WIC funding including, most recently, adopting in the Senate Budget Resolution for the fiscal year 1988 an increase of $150 million above current services. That certainly is not an insignificant sum, but it would boost the percentage of eligible persons reached in WIC by fewer than 5 percentage points. More than half of those eligible would still remain outside the program.

Given current budgetary constraints, it simply does not seem feasible in the foreseeable future to increase WIC appropriations enough to serve all eligible low income women, infants and children who might apply. Other steps to reach more women, infants and children must also be taken, and it is in this vein that we feel that competitive bidding is especially crucial.

Competitive bidding is the key to a lot of the discussion here this morning. You and Senator Boschwitz have been looking at the USDA tables of the costs per State. If you look at that table on food costs per State, you will find that the three States with the lowest costs are Mississippi, Ohio, and Vermont and the three States that use competitive bidding are Mississippi, Ohio, and Vermont.

Senator HARKIN. Right.

Mr. GREENSTEIN. Competitive bidding is something that USDA itself already uses extensively when it purchases commodities for its own food assistance programs. When USDA goes and buys commodities for the School Lunch Program, not those that are already in surplus stock, but those that it goes out and purchases, it uses competitive bidding.

Competitive bidding holds the promise of enabling substantially more WIC eligibles to be served for the same level of funds. It can promote efficiency and economy and maximize the return the taxpayer receives for his or her tax dollars. In short, it is good government.

Senator HARKIN. Bob, can I interrupt you right there? I had not noticed Vermont before. They have this dairy program they talked about.

Mr. GREENSTEIN. Well, I will get to how each State works.

Senator HARKIN. Well, I was just saying, Vermont has a low food cost, but look at its administrative costs, they are almost half again as high as Iowa's. Vermont's costs are at $26.03 for food, but look at their administrative costs, $10.18. I do not understand why.

Mr. GREENSTEIN. Well, allow me to make a little diversion there.

Senator HARKIN. I am told they do home delivery.

Mr. GREENSTEIN. Yes. There are a number of issues. They have a home delivery system which is like a milk route. But in addition to that, we have a little bit of an irony here, and that is that the children's food package, if I understand it correctly, is a little less expensive than the other food packages. To the degree that a State has a bigger program, that is to say, serves more of the eligibles, it will have a larger proportion of its caseload that is children.

In that case, when you look at the ratio of food costs to administrative costs, since the food costs are lower for each child, the administrative costs may be higher in the ratio, and Vermont has the biggest program in the country—meaning it serves the highest percentage of its income-eligible population—and has more children. There are other factors as well, but it is a little complicated.

In any event, while competitive bidding can be used to purchase a number of WIC food items and is used in that manner by a few States, its advantages are most apparent in regard to procurement of infant formula. Infant formula purchases now consume more than 30 percent of all WIC food costs. That is more than $400 million a year in Federal WIC funds. This is substantially more than all Federal funds expended for certification and recertification of participants, blood tests, nutrition screening, nutrition education, and all other WIC administrative costs combined.

In recent years, infant formula costs have escalated dramatically. The Bureau of Labor Statistics data show that from 1980 to 1986, grocery store food prices rose 21 percent, and prices for dairy products—which are a major ingredient of formula—rose 14 percent. Overall consumer prices rose 33 percent. But during this same period, infant formula prices rose 48 percent according to data from Ross Laboratories, the Nation's largest formula manufacturer and closer to 60 percent according to some other sources.

This sharp increase in infant formula prices may have a number of causes, but it is worth noting that two companies control 90 percent of the U.S. infant formula market. Three companies control about 99 percent of the market. Moreover, these companies—and especially the two major ones—have consistently followed a pattern of announcing major price increases of very similar magnitudes within a few weeks of each other.

Since the spring of 1983, Ross Laboratories and Mead-Johnson, which control 90 percent of the market between them, have raised prices five times. Wyeth, the third major manufacturer, has repeatedly raised prices as well. Each price increase has outstripped the inflation rate, often approaching double the inflation rate.

Senator Boschwitz raised a question of whether it might be more appropriate to use the medical CPI, medical inflation as a comparison. That is something some of the people in the industry have suggested. I really do not think that is the proper comparison. Medical inflation is driven by hospital and doctor costs. Hospital and doctor charges are not what is involved in the manufacture of infant formula.

In any event, regardless of why the prices went up, we really do not need to get into a debate. It is really not relevant whether it is because of regulation under the Infant Formula Act, whether the medical CPI is appropriate, whatever the reason. We do know that these increases in infant formula prices have not affected all States equally, however. Some States have fared far better than others. The key factor has been whether the State uses competitive bidding.

Currently, about 48 States distribute infant formula and other WIC foods through a voucher system or check system in which the WIC participant buys infant formula at a retail grocery store and pays for the formula with a WIC voucher or WIC check. While the retail price of infant formula varies across the country, the average price for a 13-ounce can of concentrated iron-fortified formula is now at or above $1.40. Now compare this to the other prices.

In States using competitive bidding to procure formula, however, the cost of formula is much lower—ranging 47 cents a can to 95 cents a can compared to the $1.40 I just mentioned. In all of Vermont and in parts of Ohio, the WIC Program distributes food through a home delivery system, which operates somewhat like a door-to-door milk route. In these programs, the State health department—or the dairies operating the delivery route—purchase formula directly from a single manufacturer. The purchasing is done through competitive bidding, with the company that is the lowest bidder winning the contract. In Mississippi, as you heard earlier, a direct distribution warehousing system is used. That is true, but there is another point. And that is that in Mississippi, as in Vermont and Ohio, one brand of infant formula is purchased, and it is done through competitive bidding. Mississippi did not always use competitive bidding. It has now gone to competitive bidding, and the cost of its formula plummeted when it went to competitive bidding.

Mississippi now pays about 47 cents a can for infant formula. In Vermont and Ohio, it is about 52 to 95 cents a can, and these figures include the storage and distribution costs.

In addition, in your State, in Des Moines you have a Commodity Supplemental Food Program. What we have not heard yet here today is that USDA buys all the formula for all the CSFP programs in the country. How does it do it? Competitive bidding. What does it now pay? 66 cents a can. It does that for Des Moines. It does it for the Red Lake Program in Minnesota that has a CSFP Program.

And if you look at the CSFP package as a whole, which is generally all procured through competitive bidding except for the foods that are surplus, it is in the low $20 per person, far below the 30's in the WIC Program.

So the experiences of these States—and of the CSFP Program—show that substantial economies can be achieved through use of competitive bidding. As a result, some States in which home delivery routes or warehousing of WIC foods are not feasible have begun to explore innovative ways of using competitive bidding. And this, I think, is the next key point. You asked a number of questions, and Senator Boschwitz did, about how Mississippi does it. Mississippi has these warehouses, and it is almost like a commodity program. They buy all the foods in bulk and they put them in the warehouses, and the recipients come to the warehouses and pick them up.

In most States in the country it is not feasible to use the warehouse system just as in most States in the country it is not feasible to use the milk route that Vermont uses.

Senator HARKIN. Why is it feasible in Mississippi, but not in Alabama?

Mr. GREENSTEIN. Well, it may be in some other States, but in many States they do not have the warehousing capacity; the distances are too great. There may be transportation problems. But let me get back in a second to that. Here is the point. What Tennessee and Oregon are trying to do is to say, okay, if we cannot use a warehousing system, and we cannot use a home delivery system, how can we still get a lot of the benefits, how can we still do competitive bidding, because we want to go through retail food stores? And that is what their system is. It is a way to combine use of retail food stores with the same competitive bidding that Mississippi uses.

Under their plan a company gets an award. The low bidder gets the award. The formula is still sold at the normal retail price in the normal retail store, and the difference between the retail price and the competitive bid contract price is provided as a rebate. So it really, in a way, is a derivative of what Vermont and Ohio and Mississippi are doing. It is a way to use competitive bidding without having to go to warehousing or home delivery, but that is the essential link between Tennessee and Oregon and Mississippi and Vermont and Ohio which as we have just seen have the three lowest food package costs in the country.

The significance of these competitive bidding mechanisms cannot be understated. The Tennessee rebate system, as you heard, would save $4 million a year, and it would enable the State, if it were to able to serve all the additional people that those funds would allow, to expand the number of people served by 10 percent.

Now if you had a similar system in all States, that saved 10 percent, whether it was Tennessee or another form of competitive bidding, that would mean that you could add 300,000 additional women, infants, and children to the program within existing funding levels without increasing the appropriations.

That is very, very significant. The point, again, essentially is that competitive bidding here is just like in the Pentagon, it is good government. You can get more bang for the buck. And we should be doing everything we can to encourage more use of competitive bidding.

Unfortunately, however, use of competitive bidding is now limited to a small handful of States. While several other States have expressed interest in a competitive bidding approach, these States have generally indicated an unwillingness to implement a system using competitive bidding so long as certain WIC rules and requirements remain in force.

The single greatest obstacle, as you have heard this morning, regards WIC administrative funds. I should add at this point that Stefan and I have a long track record, well-known in the WIC Program, of opposing proposals coming from the States to increase the proportion of WIC funds going to administrative costs. Over the years, and when I was in the Department of Agriculture, we opposed those proposals. I do think this is a different issue here before us today regarding the competitive bidding. A State's administrative funding level is currently tied to its food funding level, and as the Tennessee director mentioned, you have an anomalous situation in that if they save money so they can serve more people, they do not get any additional funds to serve the additional people. It is a disincentive, and it is why other States are not going into that approach.

The losers in this standoff are poor women, infants, and children and the U.S. taxpayer. We believe the Federal Government should move swiftly to resolve this problem by providing more incentives for competitive bidding and that means more administrative funds, I think, in that area. The proposal that you have been hearing about this morning to take a portion of the savings gained in competitive bidding and using it for the costs of certifying and providing nutrition education related services would accomplish that goal, and we would support that. Now I would like at this point to respond to some of the Department's comments on that.

The Department has said, well, we are going to revise our allocation formula so that the administrative funds will be divided up among States based on the number of participants. That is very positive. That is helpful that the Department is planning to do that. And I think the WIC State Directors Association and people like ourselves are all in support of that.

However, in and of itself, that is not going to be sufficient to do the trick. There are several issues there. First, if you had a State that cut the amount of food that it gave the poor women, infants, and children by 15 percent or 10 percent, they get rewarded just as much under that formula as the State that cut costs 10 or 15 percent by going to competitive bidding. Secondly, when Mr. Bode mentioned things like cutting the juice, and considering different brands and their costs, all those things can reduce food costs, but their impact is small compared to the impact of competitive bidding.

We are talking about huge savings from competitive bidding. They are not really in the same ballpark. Thirdly, I think you and I would want to see lots of States do procedures where you can serve a lot more people for the same amount of money. But if lot of States tried to do that, the overall pool of administrative funds would be shrunk substantially on a per person basis, and there would not be enough there.

So, what we are really saying is, that we need more powerful incentives above and beyond the positive steps the Department is planning to take with the allocation formula to promote more competitive bidding. Whether it is a Mississippi approach, a Tennessee approach, a Vermont or Ohio approach, we need more powerful incentives on the administrative side to do that.

I thought something John Bode said was fascinating. He said in Mississippi, we take a portion of some of the warehousing costs, and we redefine those as food. Remember when he said that. What that does is, it means that Mississippi effectively is spending more than 20 percent for nonfood costs, but everybody thinks that is a good idea because they get the food so cheap, and they serve more people. It is not a negative. It is a positive. This is the same principle as in Mississippi, not to the same degree. It is not quite since you cannot save quite as much money on food as when you go to warehousing, and you do not have the additional administrative costs to the extent you have them in running a warehouse. But the basic principle is a similar one in that you get big savings from doing the competitive bidding, and you need a way to secure the administrative funds to cover it and to serve the additional people.

Senator HARKIN. Excuse me for interrupting. I would like to have the Department respond on that in writing. Is that okay?

Mr. BRALEY. That would be fine, Senator.

Senator HARKIN. This is a point that I really want to get to the bottom of.

[The Department's response follows Mr. Greenstein's prepared statement. See page 133.]

Mr. GREENSTEIN. Let me just close and say that during some of the other testimony, as the Department was leaving, I went and talked to John Bode in the hall briefly. The message I conveyed to him, and the one I would hope to convey to the subcommittee today, is this should not be a liberal/conservative/Republican/ Democrat issue. We should all agree that we want more competitive bidding and more incentives to save money, serve more people for the same amount.

I am really convinced that we have got to do something more on the administrative cost front to bring that about. I think the association's proposal is very positive. I would suggest that the Department would think more about that. I know they have been opposed to the idea of simply saying that if you save money in a rebate system like Tennessee's you get to use that for administrative costs. And the point the Department has made in the past months is valid, but Mississippi and Ohio and Vermont are doing it another way. Why should a rebate system exist only in Tennessee?

What the States have talked about this morning is not limited to Tennessee. It addresses any kind of system that uses competitive bidding. I think it answers the concern that the Department has expressed, and my hope would be that if the Department's experts and the State people, and your staff and Republican and Democratic staff, could all sit around the table, we should have as a goal to work out a way to deal with this barrier that is now stopping States from doing what everyone should want them to do which is to use these systems to serve more people for the same amount of money. That should be a major goal. I think it is one of the major issues in food assistance policy at this point at the Federal level.

Thank you.

Senator HARKIN. Thank you very much, Mr. Greenstein. I appreciate the testimony. I guess I really do not——

Mr. GREENSTEIN. Mr. Chairman?

Senator HARKIN. Yes.

Mr. GREENSTEIN. Might I add one additional point?

Senator HARKIN. Yes you may.

Mr. GREENSTEIN. The issue that I know you brought up earlier in the hearing, and I forgot—I was looking at all my notes, and I forgot the very end of my prepared testimony. This issue, and I know the Department plans to look into it, is lapsed funds. I have done a little research on this, and I just wanted to share this with you.

For the last 3 years, the Treasury appropriations bill has required Federal agencies to reduce consultant costs by specified percentages and return the savings to the Treasury. I believe in some years it was 5 percent and other years 10 percent. There is a certain amount of flexibility that agencies have as to from which account they can take the money out.

What the Department has been doing, or what FNS has been doing, is that they have been taking a disproportionate share of the amount they have to return to the Treasury out of the WIC account instead of out of other accounts, and the result is that in the last 3 years, nearly $2 million in WIC funds have been returned to the Treasury unspent when we have all of this unmet need. That is far in excess of the amount that would have been returned if the consultant costs in WIC for the studies and evaluations are only 2 to 3 million a year. If this percentage had been applied—if the percentage in the Treasury bill had been applied to those funds, it would be much lower.

I think what is happening is that the Department is protecting the FNS administrative budget and is not taking much or anything out of the consultant costs that are in their administrative budget, and is able to do that because they are taking the money out of WIC instead.

I would hope that the Congress would urge and direct the Department to stop taking a disproportionate share of these funds out of the WIC account and returning them to the Treasury unspent. Thank you.

Senator HARKIN. I would like to have a response from the Department on that point, so we can talk about that.

[The joint prepared statement of Mr. Greenstein and Ms. Harvey follows, with Department's responses for Senator Harkin attached thereto.]

STATEMENT OF ROBERT GREENSTEIN AND STEFAN HARVEY

CENTER ON BUDGET AND POLICY PRIORITIES

before the

SUBCOMMITTEE ON NUTRITION AND INVESTIGATIONS

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

June 11, 1987

I appreciate the opportunity to testify here today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities, which is a nonprofit research and analysis organization that focuses primarily on public policies affecting low income Americans. The domestic nutrition programs, especially food stamps and WIC, are of particular interest to the Center. Since the Center's inception in 1981, we have conducted an on-going project on the WIC program. Stefan Harvey, director of our WIC project, is here with me this morning.

We would like to discuss several issues with you: 1) recent research findings that have become available since the Committee last conducted hearings on WIC; the extent of unmet need for WIC; and the importance of substantially expanded use of competitive bidding in WIC to increase program efficiency and enable more women and children to be reached while controlling costs.

Research Findings

Last year, the long-awaited national evaluation of the health impacts of the WIC program was issued. The multi-million dollar study, funded by USDA and conducted over a number of years, represents one of the most extensive evaluations conducted of a federal social program. The study was directed by Dr. David Rush of the Albert Einstein Medical School, one of the nation's leading researchers in the area and a figure well-known to this Committee, having frequently been invited to testify on WIC in past years by Senator Helms.

The study's results are striking and an affirmation that some government programs do work.

- WIC contributed to a reduction of 20 percent to 33-1/3 percent in the late fetal death rate. In other words, the study demonstrates that WIC reduces infant mortality.
- WIC significantly increased the head size of infants whose mothers received WIC during pregnancy. Head size reflects brain growth.
- Women who participated in WIC had longer pregnancies leading to fewer premature births. There was a 23 percent decrease in prematurity among white women with less than a high school education and a 15 percent decrease among black women with less than a high school education. Premature births are one of the leading causes of death among infants.

- WIC participation resulted in a significant increase in the number of women seeking prenatal care early in pregnancy and a significant drop in the proportion of women with too few prenatal visits. Early and adequate prenatal care is one of the major factors affecting pregnancy outcomes.
- WIC participation also appears to lead to better cognitive performance in education. Four and five year olds whose mothers participated in WIC during pregnancy had better vocabulary scores. Children who participated in WIC after their first birthday had better digit memory.
- Women enrolled in WIC had improved intakes of such key nutrients as iron, protein, calcium, and Vitamin C.
- WIC also improved the diets of infants -- by increasing the average intake of iron and vitamin C and significantly diminishing the frequency of low intakes of iron and Vitamins A and C. WIC improved the diets of older preschool children as well, by increasing average intakes of iron, Vitamin C, thiamine, and niacin, and significantly decreasing the frequency of low intakes of Vitamins A and B and riboflavin.
- The greatest dietary benefits were among those at highest risk: minority women and women with less education, and children who are very poor, short, black, or in female-headed families.
- Children enrolled in WIC were better immunized and more likely to have a regular source of medical care.

Other recently published studies provide further evidence of WIC's impact. *The New England Journal of Medicine* carried a special report on the findings of three researchers at the Yale School of Medicine that there had been a "remarkable decrease" in the prevalence of anemia among low income children in New Haven since the early 1970s. The researchers concluded: "The marked improvement can most probably be attributed to the nutritional supplementation with iron-fortified foods provided by the WIC program."

In addition, a recently published study conducted by the Missouri Department of Health found that each dollar spent in the prenatal component of WIC saved $.49 in Medicaid costs just during the infant's first forty-five days of life.

Unmet Need

These findings indicate that dollar-for-dollar, the WIC program represents one of the most productive expenditures of funds made anywhere in the federal government. Despite these findings, there remains a large unmet need for WIC, however. The program is still able to reach only a fraction of the low income pregnant women, infants, and children eligible for it.

Today, the WIC program serves 3.4 million women, infants, and children. USDA estimates that in 1979 (the year to which the 1980 Census data apply) more than eight million women, infants, and children met WIC's income eligibility critieria. There is no question that this number is substantially higher today, since the number of Americans living below the poverty line is nearly seven million greater today than it was in 1979.

To be sure, WIC also includes a "nutritional risk" test. To qualify for the program, women, infants, or children must be found by a medical professional to be at nutritional risk as well as being low income. Yet the best data indicate that even after the nutritional risk criteria are applied, the number of persons now served through WIC is well below half of the number who are eligible. A majority of those eligible are still left out of the program.

A survey conducted last month by our Center found that many states restrict entry into WIC and do not certify entire categories of eligible participants, because there are no funds to serve them. For example, some states certify no children beyond their first birthday, regardless of whether they may be anemic or have other medical problems. Other states deny service to children who are medically determined to be at risk but have not yet developed a medical problem. Such a practice undermines the preventive nature that Congress intended the program to have. Our survey also found that there are 75 counties in the U.S. that have no WIC program at all and that also lack a Commodity Supplemental Food Program.

What To Do

In recent years, Congress has provided some increases in WIC funding. Last month, in adopting a budget resolution for FY 1988, the Senate assumed an increase of $150 million over current services for WIC. This action is encouraging. We hope the Senate's interest in increasing WIC funding, as reflected in the Senate budget resolution, will result in significantly increased appropriations for WIC in FY 1988 and subsequent years.

Yet we would note that even an increase of $150 million over current services -- not an insignificant sum -- would boost the percentage of eligible persons reached in WIC by fewer than five percentage points. At least half of those eligible would still remain outside the program.

Thus, while increased appropriations are essential, they are not sufficient by themselves. Given current budgetary constraints, it does not seem feasible in the foreseeable future to increase WIC funding enough to serve all eligible low income women, infants, and children who might apply. Other steps to reach more women, infants, and children in need must also be taken.

The Crucial Importance of Competitive Bidding

One of the most importance such steps would be expanded use of competitive bidding to obtain WIC food items. Competitive bidding -- which USDA already uses extensively when it purchases commodities for other food assistance programs -- holds the promise of enabling substantially more WIC eligibles to be served for the same level of funds. It can promote efficiency and economy and maximize the return the taxpayer receives for his or her tax dollars. In short, it is good government.

While competitive bidding can be used to purchase a number of WIC food items (and is used in this manner by a few states), its advantages are most apparent in regard to procurement of infant formula. Infant formula purchases now consume more than 30 percent of all WIC food costs -- or more than $400 million a year in federal WIC funds. This is substantially more than all federal funds expended for certification and recertification of participants, blood tests, nutrition screening, nutrition education, and all other WIC administrative costs combined.

In recent years, infant formula costs have escalated dramatically. Bureau of Labor Statistics data show that from 1980 to 1986, grocery store food prices rose 21 percent and prices for dairy products (which are a major ingredient of infant formula) rose 14 percent. Overall consumer prices rose 33 percent. But during this same period, infant formula prices rose 48 percent according to data from Ross Laboratories, the nation's largest formula manufacturer (and closer to 60 percent according to some other sources).

This sharp increase in infant formula prices may have a number of causes, but one factor appears to be the limited competition in the infant formula industry. Two companies control 90 percent of the U.S. infant formula market. Three companies control about 99 percent of the market. Moreover, these companies -- and especially the two major companies -- have consistently followed a pattern of announcing major price increases of very similar magnitudes within a few weeks of each other.*

Since the spring of 1983, Ross Laboratories and Mead-Johnson (which control 90 percent of the market between them) have raised prices five times. Wyeth, the third major manufacturer, has repeatedly raised prices as well. Each price increase has outstripped the inflation rate, often approaching double the inflation rate.

These increases in infant formula prices have not affected all states equally, however. Some states have fared far better than others. The key factor has been whether the state uses competitive bidding.

Currently, forty-eight states distribute infant formula and other WIC foods through a voucher or check system in which the WIC participant buys infant formula at a retail grocery store and pays for the formula with a WIC voucher or WIC check. While the retail price of infant formula varies across the country, the average price for a 13-ounce can of concentrated iron-fortified formula is now at or above $1.40.

In states using competitive bidding to procure infant formula, however, the cost of formula is much lower -- ranging from $.47 a can to $.95 a can. In all of Vermont and in parts of Ohio, the WIC program distributes food through a "home delivery" system, which operates somewhat like a door-to-door milk route. In these programs, the state health department (or the dairies operating the delivery route) purchase formula directly from a single manufacturer. The purchasing is done through competitive bidding, with the company that is the lowest bidder being awarded the contract. In Mississippi, a direct distribution system is utilized. Here the state purchases all the WIC foods, stores them in warehouses, and distributes them directly to participants (who come to warehouses or other distribution points to pick up the food). In Mississippi, as in Vermont and Ohio, one brand of formula is purchased through competitive bidding.

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*For example, on August 28, 1986, Wyeth announced a 7 percent increase. On October 10, Ross followed with a 6 percent increase. On October 20, Mead-Johnson announced a 6.7 percent increase.

Mississippi pays about $.47 a can for infant formula for its WIC program. In Vermont and Ohio, infant formula is currently purchased for the home delivery programs for $.52 to $.95 a can. (These figures include storage and distribution costs.)

In addition, USDA purchases infant formula for the Commodity Supplemental Food Program (CSFP). Through competitive bidding, USDA recently purchased formula from one manufacturer for the first six months of fiscal year 1987 for $.66 a can for CSFP.

The experience of these states -- and of the CSFP program -- show that substantial economies can be achieved through use of competitive bidding. As a result, some states in which home delivery routes or warehousing of WIC foods are not feasible have begun to explore innovative ways of using competitive bidding. The Tennessee "rebate" system, in which continued use of retail stores to distribute infant formula is combined with use of competitive bidding to award a statewide contract for infant formula, is a case in point.

The significance of these competitive bidding mechanisms cannot be understated. The Tennessee rebate system will save 48 cents per can of infant formula distributed, resulting in a total savings of $4 million a year to the state WIC program. This can enable the state to expand the number of women, infants, and children served by more than 10 percent.

If a similar system were adopted by all states not currently using competitive bidding, and if the rebates in other states were of a similar magnitude to the rebate in Tennessee, more than 300,000 additional women, infants, and children could be served each year within existing funding levels.

If some states adopted warehousing rather than rebate systems, or if competitive bidding were used to procure other WIC foods in addition to infant formula, the savings (and the additional numbers of people served) would be even greater.

Unfortunately, however, use of competitive bidding is now limited to a small handful of states. While several other states have expressed interest in a competitive bidding approach, these states have indicated an unwillingness to implement a system using competitive bidding so long as certain WIC rules and requirements remain in force. There are now both statutory and bureaucratic impediments that are frustrating efforts to promote increased use of competitive bidding.

The greatest obstacle regards WIC administrative funds. A state's administrative funding level is currently tied to its food funding level. Thus, if a state institutes a competitive bidding procedure, the state will have the "food funds" to provide WIC foods to more people but will have no additional administrative funds to cover the costs related to certifying and providing benefits to the additional recipients (including the costs of blood tests to check for anemia and the costs of providing nutrition education and counseling to these participants). As a result, few states are currently willing to institute competitive bidding procedures. State and local WIC officials believe that attempts to serve substantially more participants without additional administrative funds will result in serious erosion in the quality of nutrition services provided.

The losers in this stand-off are poor women, infants, and children -- and the taxpayers. We believe that the federal government should move swiftly to resolve this problem by providing more administrative funds when more participants are served due to adoption of competitive bidding procedures.

The proposal advanced by the National Association of WIC Directors -- to enable states to take a portion of the savings from use of competitive bidding and use it for the costs of certifying and providing nutrition education and related services to the additional participants who are served -- would accomplish this objective. We strongly support this proposal and believe it would spur considerably expanded use of competitive bidding in the WIC program.

A Final Point: Lapsed Funds

Finally, we would like to call the Subcommittee's attention to another matter of which we have recently become aware. In recent years, the Treasury Appropriations bill has required federal agencies to reduce consultant costs by specified percentages and return the savings to the Treasury. The Food and Nutrition Service at USDA has been following a practice of calculating the total amount it has to return to the Treasury, and then taking a highly disproportionate share of this amount from the WIC account. Over the past three years, FNS has taken nearly $2 million in WIC funds and returned them to the Treasury. Our understanding is that FNS has consistently acted to protect its own FNS administrative budget by taking the "consultant savings" largely from WIC instead.

We would urge the Committee to look into this matter.

Department's response requested by Senator Harkin.

Mr. Greenstein expressed some confusion as to how the Department could be supportive of the reclassification of warehousing and distribution costs as food costs rather than administrative costs in the case of Mississippi, yet not be supportive of allowing for the conversion of rebated food monies in infant formula rebate systems to administrative funds. He equated the two practices. This equation does not withstand scrutiny.

Mississippi is the only State to operate a warehouse-distribution system in WIC. In such a system the State competitively procures foods, warehouses them and directly distributes food to WIC clients. Heretofore, only the food procurement cost was an allowable cost to the State's food grant. The cost of warehousing, transporting and distributing the food were only allowable as administrative costs. There was an obvious inequity in this limitation when one considered the retail and home delivery systems.

In the retail system, the cost of warehousing, transporting and providing the food to the client are all reflected in the shelf price. This transacted shelf price is fully allowable as a food cost. In the home delivery system, all these same costs, plus the cost of delivery to the participants' doorsteps are also allowable as food cost.

Reclassifying these costs in a warehouse distribution system to permit Mississippi to use food funds to pay those costs is a simple matter of consistency and equity.

Conversion of food funds to administrative funds in a rebate system is not at all analogous to that reclassification.

The rebate system is a mechanism to introduce competitive purchasing of one food type in a retail food delivery system. The character of the rebates paid by manufacturers to the State is understood in that context. The rebate is a credit to cost, and its payment is the mechanism to effect a low net cost to the State for the procurement. The amount of the rebate is the cost avoidance. The only feature of Mississippi's system which is analogous is its competitive procurement of food items. The differential between "wholesale" cost and the cost achieved through competitive procurement is the cost avoidance. This cost avoidance does not become converted to administrative expenditures in any sense. Mississippi does not receive any additional administrative funds because of this competitive procurement. Ohio, which procures infant formula through competitive procurement as part of its home delivery system, does not receive additional administrative funding because of the cost avoidance realized under that competitive procurement.

There is no inconsistency in the Department's position.

Senator Harkin. We heard testimony earlier that the Missouri Medicaid study showed an 83 cents savings in Medicaid for each dollar spent on WIC. Do you think doing a Medicaid study on a national basis would be a good idea?

Mr. Greenstein. I have had this issue raised with me in the last few weeks, Senator. I have actually talked to several leading researchers in the country about it, and all of them thought it would be an excellent idea. I would note that there was a followup study done in Missouri, and in the second one it came out a little lower. I think it was about 49 cents for each dollar.

Part of that may have to do with changes in the Medicaid Program and the way it is run now, some of the cost-saving measures in Medicaid. But nevertheless, there does appear to be Medicaid savings. It was certainly found to be the case in Missouri, and I think it would be important for the Congress, as it has to make difficult funding decisions, to have that information on a national basis. So, yes, I think that would be a very useful study to conduct.

Senator Harkin. Thank you very much for your testimony. I want to thank everyone for coming. There was a question raised earlier about what the income level was for a family of four at the 185 percent level. According to USDA as of March 1986, that was $18,870. I heard a figure of $22,000. I think Senator Boschwitz had come up with that, but I did not know at the time. I am looking at the figure here for USDA. So, using 185 percent as a standard for a family of four would class any income level up to $18,870, income eligible for WIC. I do not know what it is this year, but that was the level as of March 1986.

Without objection, the statement of Senator Boschwitz will also be included in the record.

[See page 13 for Senator Boschwitz' prepared statement.]

Senator Harkin. The subcommittee will stand adjourned.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for the record follows:]

United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

2420 West 26th Avenue
Denver, CO 80211

DEC 17 1986

Reply to
Attn of: MPSF-1:WC-87-6-I

Subject: Infant Formula Rebates

To: ALL WIC STATE AGENCIES

Please find attached a summary of the infant formula rebate issue, for your information. We would appreciate you sharing this with your staff.

Jose A. Acosta
JOSE A. ACOSTA
Regional Director
Supplemental Food Programs

Attachments

DEC 1986
RECEIVED

FNS FORM-607 (6-80)

Infant Formula Rebates - Summary

For many years retail infant formula prices have increased at a rate much faster than food inflation. Typically, when one formula manufacturer announces a price increase, the other two producers quickly follow suit. In virtually all retail stores, there is no difference in price among the three competing brands of formula. Current retail prices for a 13 oz. can of concentrated infant formula range between $1.25 and $1.50.

The State of Mississippi procures infant formula from a single supplier on a competitive bid basis and directly distributes formula to its WIC clients. Similarly, the U.S. Department of Agriculture (USDA) procures formula on a competitive bid basis for distribution through the Commodity Supplemental Food Program. Recent bid prices for Mississippi and USDA have been between 50 and 66 cents for a 13 oz. can of concentrate (vs. $1.25 to $1.50 at retail). Savings have also been achieved by local WIC programs that procure formula for a home delivery type of system. State WIC directors, aware of this significant price differential, have become interested in a rebate system whereby a single company would provide formula to the WIC clientele through the retail system and pay a cash rebate to the State for each can of formula sold. The rebates, which represent a lower net price for infant formula, achieved through this approach would be recycled back into the States' WIC program thus increasing the number of women, infants and children that may be served. To date, two States, Tennessee and South Carolina, have received approval from USDA to amend their State plan of operation to pursue the rebate option. Other States and USDA are following developments in these States in order to see if significant savings can be achieved without serious problems in program operations. Tennessee has gone out for a bid and has received at least one bid to provide a 40 cent per can rebate. When the Tennessee system becomes operational, the State believes that these procedures will result in savings of nearly $3 million which will allow service to approximately 7,000 additional WIC participants in Tennessee.

- Infant formula represents approximately 30 percent of total WIC program food costs.
- WIC accounts for approximately 30 percent of total infant formula sales in the United States.
- While specific details of rebate systems under consideration vary by State, they all share the following general characteristics.
  - States solicit competitive bids from manufacturers, selecting bidder with lowest net cost (wholesale price minus rebate = net price).
  - The selected manufacturer supplies formula for WIC infant participants in the State, except participants prescribed other WIC approved brands and special formulas by their physicians.

- The manufacturer supplies both iron-fortified milk and soy-based formula.

- WIC vendors are given lead time to "stock up" on the selected brand of WIC formula in anticipation of the demand by WIC customers.

- WIC customers "buy" selected WIC formula with WIC vouchers as usual. For infants who do not tolerate the selected formula, WIC customers may purchase other WIC approved formula upon doctor's prescription.

- Vendor routinely assures that WIC customers purchase only foods meeting the specifications for allowable WIC foods as it currently does.

- Vendor bears no additional responsibility beyond stocking selected formula in sufficient supplies.

- State accounts for the number of units of selected formula through a clearly accountable system described in its State plan. That number multiplied by the per unit contract rebate amount represents the billing to the manufacturer. (Some plans call for a percent reduction to the billing to further insure the intergrity of the claim.)

- Manufacturer remits rebate to State agency.

- Rebate finances are returned to the State's WIC program account and used to serve additional participants.

- Entire process represents a procedural change in the retail food delivery system that must be documented in State plans that are subject to public comment and FNS approval.

USDA Position

USDA has neither promoted nor blocked these State initiatives. USDA has approved State plan modifications for both Tennessee and South Carolina following appropriate public input as prescribed by program regulations. USDA intends to closely watch the effects and impacts of any systems that become operational. In the absence of compelling arguments against the rebate approach, USDA believes that the potential for serving additional participants makes this approach worthy of testing in one or more States.

Potential Cost Savings

- Mississippi bulk purchases infant formula for direct distribution at 53.3 cents per can. Comparing this to retail prices between $1.25 and $1.50, Mississippi has increased its formula purchasing power two to threefold. Other direct distribution sites have achieved similar savings.

- Tennessee estimates its likely rebate savings at $2.9 million (based on the 40 cents per can bid) which would allow it to serve 7,200 more participants annually, a 10 percent increase in service.

- If South Carolina were to obtain the same 40 cent per can rebate bid as Tennessee, it estimates an annual savings of almost $3 million and service to an additional 7,500.

AVERAGE NET CONTRACT PRICE FOR COMPETITIVE PURCHASE SYSTEMS

Milk based, 13 ounce concentrate

OHIO	from 52c - 95c	dairy contract; home delivery; includes delivery; the more rural the area, the higher the price
MARYLAND	from 90c - 105c	dairy contract; home delivery counties; includes 20% (approximate) delivery charge; the more rural the area, the higher the price
VERMONT	69.75c	State contract with Wyeth; retail distribution; included in 7.29c delivery charge
TENNESSEE	81c	State contract with Wyeth; retail distribution; minus the 40c rebate
MISSISSIPPI	53.3c	State contract with Wyeth; direct distribution
USDA	66c	Contract for milk based formula in the Commodity Supplemental Food Program, which operates in 14 States

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-176994

October 9, 1987

The Honorable Tom Harkin
Chairman, Subcommittee on Nutrition
and Investigations
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

Dear Mr. Chairman:

Pursuant to your July 9, 1987, letter and subsequent meetings with your office, we agreed to estimate the number of additional participants--any eligible women, infants, or children--who might be added to the Special Supplemental Food Program for Women, Infants, and Children (WIC) by applying any savings that might be achieved by states purchasing infant formula at less than retail cost.

Generally, states, through their local agencies, provide eligible WIC participants with vouchers or checks that are redeemable for food at local retail stores. U.S. Department of Agriculture (USDA) regulations require that any savings achieved through cost saving practices under the WIC program must be used solely to purchase food for additional eligible WIC participants. (USDA estimated that only 40 to 50 percent of the people eligible are participating in the WIC program.) One food item--infant formula--has been purchased by some states through competitive bids for less than retail cost. However, according to state WIC officials, purchasing food under cost saving methods presents a disincentive to increasing program participation because states are not allowed to use any of the savings to cover increases in administrative costs incurred as a result of increased participation. As a result of these states' concerns, the Congress is currently debating this issue and legislation has been proposed to allow states to use 10 to 20 percent of any savings achieved to cover increases in administrative costs of adding WIC participants.

In summary, based on cost savings methods used by six states to purchase infant formula at less than the retail cost, we estimated that for fiscal year 1988 between 221,400 and

630,200 additional eligible WIC participants[1] might be served nationwide with savings achieved if all states purchased infant formula at reduced rates similar to those of the six states. These estimated numbers are based on current regulations requiring that all savings be used to purchase food for additional eligible WIC participants. In addition, we estimated that the number of additional eligible WIC participants that might be served by states using 10 to 20 percent of the estimated savings to cover administrative costs is between 200,500 and 567,700 at the 10-percent level and between 177,100 and 505,200 at the 20-percent level. The wide range in the number of eligible WIC participants that might be added to the program reflects the different estimated savings experienced by each of the six states. In using this information, it is important to understand that there are limitations to our nationwide projections. (Section 2 provides a detailed description of our methodology, assumptions, and limitations of the estimates.)

Six states--Maryland, Mississippi, Ohio, Oregon, Tennessee, and Vermont--have contracts to purchase infant formula for less than the average retail during fiscal year 1988. Using data from these states and USDA, we provide nationwide estimates of savings and, by using those savings, the number of additional eligible WIC participants that might be added to the program in fiscal year 1988. Although we cannot provide a precise assessment of nationwide savings, we have attempted to provide an indication of possible savings if the experiences of the six states were duplicated nationwide. Actual savings nationwide are likely to be different because all states may not be able to purchase infant formula for savings rates within the range achieved by the six states. As requested by your office, we did not obtain official agency comments on a draft of this report. However, we did discuss the contents of this report with USDA Food and Nutrition Service program officials.

Section 1 of this briefing report contains more detailed information on the WIC program's background and an overview of our methodology to calculate nationwide savings that could be achieved by purchasing infant formula for less than retail cost and the estimated number of eligible WIC participants that might be added to the program with the savings. Section 2 provides a detailed description of our methodology, information on the data used in our calculations, and the resulting estimates. Section 3 illustrates the steps we took to calculate one state's savings and the estimated number of additional participants that might be added nationwide assuming all states could achieve the same percent of savings.

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[1] The term "participant," as used in this report, refers to "participant slots" rather than individuals. See footnote 1 in section 2.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies of this report to appropriate congressional committees; the Secretary of Agriculture; and the Director, Office of Management and Budget. Copies will also be made available to other interested parties upon request. If you have any questions regarding this information, please call me at 275-5138.

Major contributors to this briefing report are listed in appendix I.

Sincerely yours,

Brian P. Crowley

Brian P. Crowley
Senior Associate Director

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ABBREVIATIONS

USDA	U.S. Department of Agriculture
WIC	Special Supplemental Food Program for Women, Infants, and Children

SECTION 1

INTRODUCTION

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is administered at the federal level by the Department of Agriculture's Food and Nutrition Service. The program was established by Public Law 92-433, enacted September 26, 1972, as a 2-year pilot program to provide supplemental foods to certain categories of pregnant and breastfeeding women, infants, and preschool children up to age 4. In 1975 categorical eligibility was expanded to include children up to age 5 and nonbreastfeeding women for up to 6 months after childbirth. The program's food assistance aspect was intended to operate as an adjunct to ongoing prenatal and pediatric health care. WIC's underlying premise continues to be that substantial numbers of pregnant and breastfeeding women, infants, and children from low-income families are at risk because of inadequate nutrition, inadequate health care, or both.

STATE LEVEL PROGRAM OPERATIONS

The WIC program is typically administered at the state and local levels by public health agencies--thus reflecting the Congress' intent that WIC operate as an adjunct to good health care. The Service makes cash grants to participating state health departments or comparable state agencies, including American Samoa, Guam, Mariana Islands, Puerto Rico, Trust Territory of the Pacific Islands, the Virgin Islands, and Indian groups recognized by the Department of the Interior or the Indian Health Service of the Department of Health and Human Services. During the first 3 quarters of fiscal year 1987, the WIC program had served a monthly average of about 3.4 million participants.

These WIC agencies, in turn, distribute federal funds to participating local WIC agencies in their jurisdiction. Local agencies may include city or county health departments or any of a variety of public or private nonprofit health or human service organizations such as hospitals, maternal and child health groups, or community action programs. Funds received by local WIC agencies are used to pay administrative costs, including costs for eligibility certification and nutrition education. The WIC funds must be spent in an 80/20 ratio: 80 percent for food and 20 percent for administrative cost.

WIC foods, which are confined to staple foods rich in protein, iron, calcium, vitamin A, vitamin C, and certain other essential nutrients, are not intended to provide a complete adequate diet for WIC participants. WIC foods are intended as a supplement to foods that participants would normally purchase out of family income or benefits received from other feeding or welfare programs. These foods include infant formula, juices, and cereals. Local WIC agencies may provide the supplemental foods to participants directly at a central distribution point, through a home-delivery system, or through vouchers or checks redeemable at retail food stores. Most WIC agencies nationwide use the retail purchase system.

To qualify for WIC, an applicant must meet program criteria relating to categorical status, income, and nutritional risk. Those categorically eligible include pregnant women for the duration of their pregnancy, breastfeeding women up to 1 year after childbirth, nonbreastfeeding women up to 6 months after childbirth, infants under 1 year of age, and children at least 1 year old but not yet 5 years old. An applicant's family income must be within the limits established by WIC legislation--185 percent of the Office of Management and Budget poverty guidelines--but state and local WIC agencies may establish lower limits (but not less than 100 percent of the poverty level) that would be uniform with those used to establish eligibility for free and reduced-price health care within their jurisdictions or service areas. According to USDA, this is intended to facilitate and strengthen the link between WIC and adjunct health care services.

The eligibility of WIC participants (except for pregnant women) to continue in the program is generally redetermined every 6 months, except that WIC regulations, published February 13, 1985, allow infants under 6 months to be certified up to 1 year of age, provided the quality and accessibility of health care services are not diminished.

OBJECTIVE, SCOPE, AND METHODOLOGY

At the request of the Chairman, Subcommittee on Nutrition and Investigations, Senate Committee on Agriculture, we estimated the number of additional WIC participants who might be added to the program in fiscal year 1988 by applying any savings that might be achieved by states purchasing infant formula using competitive bidding or rebate methods. We also agreed to use the Senate's budget resolution figure of $1.865 billion as the basis for our estimate. This amount represents the proposed WIC funding for fiscal year 1988.

We collected information from six states--Maryland, Mississippi, Ohio, Oregon, Tennessee, and Vermont--and the USDA. These states were selected because they presently have contracts with infant formula manufacturers enabling them to purchase infant formula for less than retail cost fiscal year 1988.

To estimate the number of eligible WIC participants that might be added to the program, we obtained documentation from USDA and/or each of the six states' WIC directors--the state individual responsible for administering the program and meeting USDA's reporting requirements--on the average retail cost[1] and the cost specified under contract, through a competitive bidding or rebate method, for infant formula. The WIC directors also provided data on the methods used by the states to deliver infant formula to eligible participants.

USDA provided pertinent data needed to estimate the number of eligible WIC participants that might be added to the program. These data included estimates of the amount of the budget that historically has been spent to purchase infant formula, including an estimate of the amount (expressed as a percent) spent on 13 ounce cans of milk based concentrate infant formula. USDA also provided the number of eligible WIC participants that may be served in fiscal year 1988 by having a budget of about $1.865 billion and the overall number of individuals eligible for WIC benefits but who cannot be served because of budget constraints.

In using our data and analysis, it is important to understand that there are limitations to nationwide projections based on data from six states. Our estimates assume that the cost paid by a state and the specific method of purchasing infant formula used by a state could be achieved by all states nationwide. Actual savings nationwide are likely to be different because all states may not be able to purchase 13 ounce cans of milk based concentrate infant formula for savings rates within the range achieved by the six states. Because of time constraints, we used USDA and state data as provided and did not independently verify for accuracy. Consequently, our estimates of savings and numbers of additional participants should be viewed in conjunction with the limitations detailed in section 2.

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[1] The average retail cost of infant formula is based on the various costs of infant formula sold at retail stores in the state. For example, Vermont WIC officials performed a price survey to estimate the retail cost of infant formula. We were able to obtain documents on estimates of the average retail cost from four of the six states and testimonial information from state WIC officials in the other two states.

SECTION 2

DETERMINATION OF ESTIMATED NATIONWIDE SAVINGS AND ADDITIONAL ELIGIBLE WIC PARTICIPANTS

This section describes the methodology we used to estimate the number of eligible WIC participants[1] that might be added to the program nationwide in fiscal year 1988 by purchasing infant formula for less than retail cost and with the savings used to increase the number of eligible WIC participants. Our estimates are based on savings that six states will achieve in fiscal year 1988 with contract prices obtained by using a competitive bidding procedure or obtaining rebates when purchasing their infant formula.

We obtained data from each of the six states' WIC directors on (1) the average retail cost to all purchasers in fiscal year 1987 of a 13 ounce can of milk based concentrate infant formula and (2) the current WIC contract cost of the same 13 ounce can of milk based concentrate infant formula. Using these data, we calculated the difference between these costs and expressed this savings as a percent of the retail price.[2] Actual savings may differ because the actual retail price paid by WIC participants differs in retail stores. As table 2.1 shows, the savings range is from 20 to 57 percent. These savings percentages are used in table 2.2 to estimate the amount of WIC funds saved nationwide and the number of eligible WIC participants that might be added to the program assuming (1) all savings are used to add participants, (2) all but 10 percent of the savings are used to add participants, and (3) all but 20 percent of the savings are used to add participants. The last two scenarios take into consideration options currently being considered by the Congress under which states would be allowed to keep portions of the savings to cover any added administrative costs included in getting new participants into the program.

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[1] The term "participant" as used in this report refers to "participant slots" rather than individuals. This means that during the course of a year, 12 months, an individual may use all their eligible time before the year has elapsed which would allow a replacement to enter the program. Thus, the number of individuals receiving WIC benefits during a year may be greater than the number of "participants."

[2] We did not use present value analysis because the cost data span only 2-years.

Table 2.1

Estimated Percent of State Savings by Purchasing Milk Based Concentrated Infant Formula

State and Distribution System[a]	Average retail cost	Contract cost	Average retail minus contract costs equal savings	Savings as a percent of retail (percent)
Ohio (Retail 38% and home-delivery 62%)	$1.40	$1.12[b]	$0.28	20
Maryland (Retail 40% and home-delivery 60%)	1.50	1.14[b]	0.36	24
Tennessee (Retail)	1.45	0.81	0.64	44
Vermont (Retail and home-delivery)	1.45	0.69	0.76	52
Mississippi (Purchases and distributes from central locations)	1.30	0.61	0.69	53
Oregon (Retail)	1.39	0.60	0.79	57

[a] To deliver the infant formula to the program participants, one of three methods is used by states. The most widely used method, employed in 46 states, is the retail purchase system where vouchers or checks are issued to parents or guardians of eligible infants and are redeemed at the grocery store for the infant formula. Two of these states--Oregon and Tennessee--use this retail method and obtain rebates from the infant formula manufacturers. The other 44 states do not currently receive rebates. Another method is the home-delivery method. Three states--Maryland, Ohio, and Vermont--use this method to deliver infant formula to a portion of its WIC participants. Under this method the state contracts with local dairies to deliver infant formula in the same manner as milk is delivered to a recipient's home. Within these three states, the dairies have obtained infant formula for less than the retail cost from manufacturers through competitive bidding. In addition, Vermont obtained the same contract price ($0.69) to purchase infant formula for its retail purchase system as it did for its home-

delivery system. The third method is the direct purchase and distribution. Mississippi is the only state that purchases infant formula directly from the manufacturer and distributes it to eligible recipients. Mississippi purchases all its infant formula under a competitive bidding method from one manufacturer.

[b] For Maryland and Ohio, which use the retail purchases and home-delivery methods for distributing infant formula at different costs, we based our estimates on a weighted average of the estimated retail cost and the reduced contract cost adjusted according to the portion of the states' WIC participants using each method. The percentages are noted in parentheses under the state name. The contract costs for the home-delivery portion (covering both formula and its delivery) are: Maryland $0.90, and Ohio $0.95. If we had applied the home-delivery contract price to 100 percent of the state WIC participants, the actual savings achieved by the state would be overstated.

As table 2.2 shows, based on cost savings methods used by the six states to purchase 13 ounce cans of milk based concentrate infant formula at less than the retail cost, we estimate that for fiscal year 1988 between 221,400 and 630,200 additional eligible WIC participants might be served by states nationwide with savings achieved if all states purchased infant formula at the same savings as those six states and if all of the savings are used to add participants. In addition, we estimated that the number of additional eligible WIC participants that might be served by states using 10 to 20 percent of the estimated savings to cover added administrative costs is between 200,500 and 567,700 at the 10-percent level and between 177,100 and 505,200 at the 20-percent level.

Our estimates of additional numbers of participants are based on the WIC funds proposed in the Senate budget resolution for fiscal year 1988 of $1.865 billion. USDA provided data that indicated that during fiscal year 1986 approximately 30 percent of the food portion of the WIC funds (about $448 million of $1.492 billion) were spent on purchasing just infant formula. Further, according to both USDA and the National Association of WIC Directors, during fiscal year 1986, approximately 95 percent of all infant formula purchased for WIC participants was milk based concentrate in 13 ounce cans. The remaining 5 percent of the money is used to purchase other kinds of infant formula such as precongested formula. Because approximately 95 percent of all infant formula purchased is 13 ounce cans of milk based concentrate, we used $425 million (95 percent of our estimated total $448 million to be spent) as the amount that may be spent for milk based concentrate infant formula during fiscal year 1988. Thus, multiplying the $425 million by each states' estimated percent of savings produces an estimated nationwide amount of savings if that state's experience could be duplicated nationwide.

For example, as table 2.2 indicates, 20 percent of $425 million equals $85 million.

Table 2.2

Range of Estimated Savings and Additional Number of Participants

Percent of state savings	NATIONWIDE ESTIMATES	
	Amount of WIC funds saved (millions of dollars)	Number of additional participants
(Assumes all savings are used to add participants)		
20	85	221,400
24	102	265,600
44	187	487,000
52	221	575,500
53	225	585,900
57	242	630,200
(Assumes 10 percent of the savings are used by states for added administrative cost)		
20	77	200,500
24	92	239,600
44	168	437,500
52	199	518,200
53	203	528,600
57	218	567,700
(Assumes 20 percent of the savings are used by states for added administrative cost)		
20	68	177,100
24	82	213,500
44	150	390,600
52	177	460,900
53	180	468,800
57	194	505,200

To determine the estimated number of additional participants, we obtained USDA data indicating that in fiscal year 1987 the average monthly cost per WIC participant was about $40--$8 administrative cost and $32 food cost. Using only the $32 per month food cost, we computed an annual average food cost per WIC participant of $384. Thus, dividing the $384 annual food cost of a WIC participant into the $85 million estimated nationwide savings produces an estimate of 221,400 additional eligible WIC participants for fiscal year 1988.

Section 3 shows, as an example, the calculations and assumptions we made for the state of Tennessee. The same calculations and assumptions were also made for the other states in our sample. Specific figures applicable for each state were used to reflect the state's estimated retail and contractual cost of purchasing milk based concentrated infant formula in 13 ounce cans.

SECTION 3

DETERMINATION OF ESTIMATED NATIONWIDE SAVINGS AND ADDITIONAL PARTICIPANTS BASED ON THE STATE OF TENNESSEE'S COSTS

Average retail cost per 13 ounce can of milk based concentrate infant formula in fiscal year 1987:	$1.45
Contractual price for fiscal year 1988:	0.81
Potential savings:	$ .64
Savings as a percentage of average retail cost:	44%
Amount estimated to be spent on infant formula in fiscal year 1988, (30 percent of the food portion of the WIC budget of $1.492 billion and assuming that 95 percent of this will be spent on milk based concentrate in 13 ounce cans) =	$425 million
Nationwide estimated savings based on this state's savings (44% percent of $425 million) =	$187 million
Estimated number of additional participants that might be added, assuming that all savings are used to purchase only food at a cost of about $32 per participant per month multiplied by 12 to determine a yearly cost of about $384 ($187 million divided by $384) =	487,000 additional participants
Following the same steps as above but reduce the savings by 10 percent to cover any additional administrative costs, as proposed by the Congress. Under this scenario the number of additional participants would be ($187 million - $19 million = $168 million divided by $384) =	437,500 additional participants

Following the same steps as above but reduce the savings by 20 percent to cover any additional administrative costs, as proposed by the Congress. Under this scenario the number of additional participants would be ($187 million - $37 million = $150 million divided by $384) = 390,600 additional participants

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